AgReview

June 2020 | Volume 32, No. 5 | World Perspectives, Inc.

Unemployment and Food Costs

Declining Glidepath for Ethanol

Mercosur Regional Analysis

Phase One Trade Deal in the Middle of China Tensions

Rethinking Development Agriculture

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WORLD PERSPECTIVES: AG REVIEW

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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?

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- *WPI does an excellent job of working to assess the client's needs and tailoring their methodologies accordingly.*
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- *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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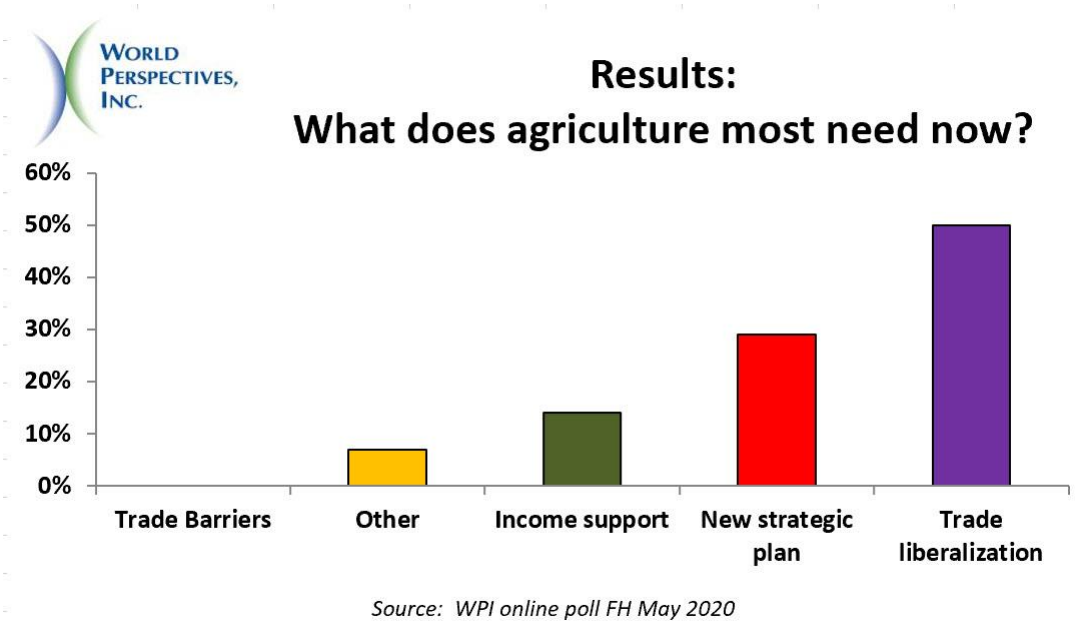
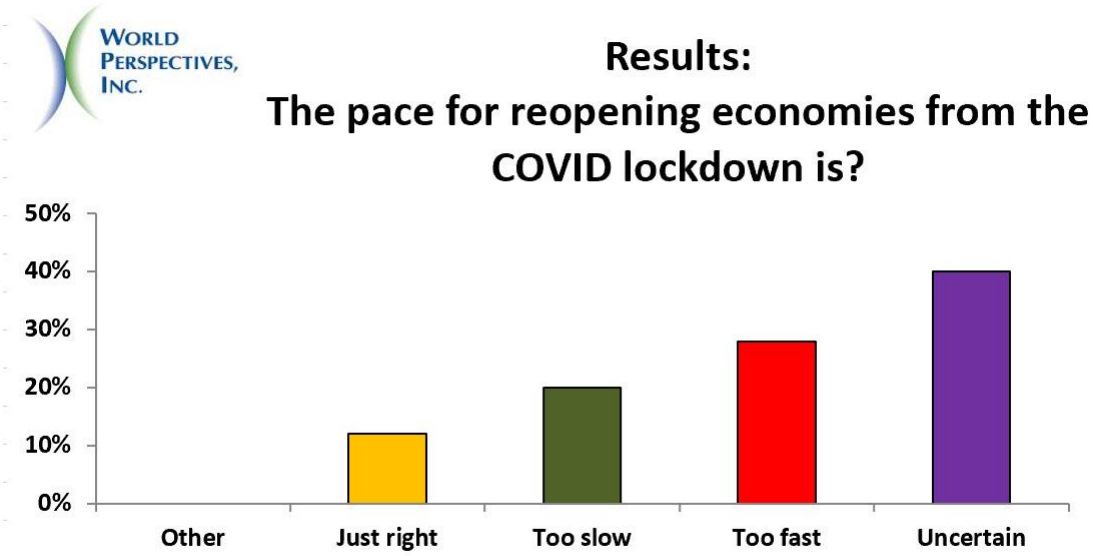
WPI POLLING

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 FH May 2020



Source: WPI online poll LH May 2020

FROM THE WPI TEAM

Looking Down?

By Gary Blumenthal

How quickly things change. The month of May brought spring, the reduction in COVID cases, signs of new demand and relative global peace. June saw wrongful deaths, violent protests, rises in U.S. COVID cases, increased populism and protectionism. An Arabian saying is that all sunshine makes the desert, but all stormy cannot be good either.

Fortunately, understanding the influences on supply and demand enables preparation and adaptation to an ever-changing world. Reading this month's Ag Review is enlightening because of its insights on demand (China, China, China) and supply (Black Sea, Mercosur, United States).

Admittedly, there are challenges that are difficult to overcome. The beef cattle industry has been technologically adapting for decades. First with record-keeping, then artificial insemination beginning in the 1950's. The switch to boxed beef fabrication reduced delivery costs while better ensuring food safety. The industry began branding itself in the 1970's and promoting itself in the 1980's. Next came an emphasis on genetics and the composition of the feed ration. Looking ahead, cattlemen worry that all their efforts will be obviated by "fake meat."

Perhaps, but industries survive through persistent innovation and focus on delivering value to their customers. Understanding where and how to evolve is achieved by reading smart analyses, likes those in this edition of Ag Review.

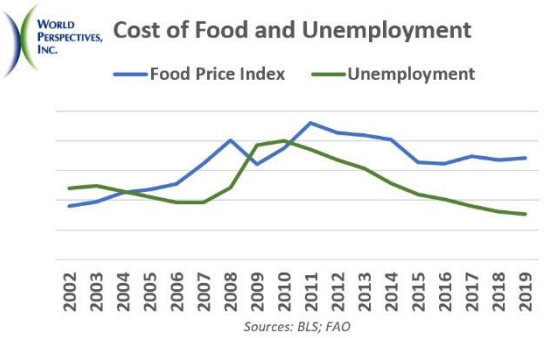
WPI MARKET ANALYSIS

Unemployment and Food Costs

By Gary Blumenthal

Reports early in the month that the jobless rate fell in the U.S. was good news that the economy is reviving. Food demand is relatively inelastic, though there can be some changes in quality. If there are impacts, they should be inverse, meaning less money to pay for food should cause food prices to drop. The price of corn going to feed livestock in order to yield more expensive meat shows a greater correlation to unemployment than does wheat going to more direct food use.

The announcement of an increase in employment should be bullish for meat and livestock products, as well as other higher priced goods. However, policymakers have flooded the economy with so much extra currency that the impacts may be too subtle to be noticed. Still, it is hopeful news, especially for those being reemployed.

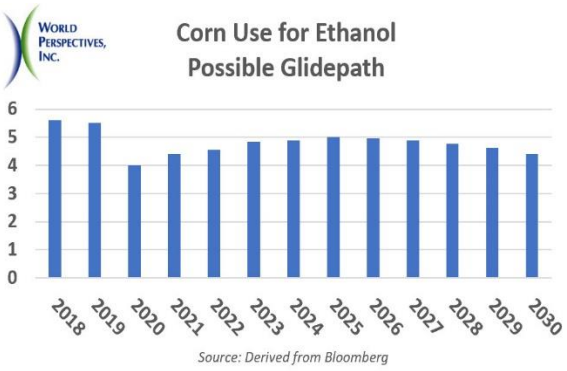


Declining Glidepath for Ethanol

By Gary Blumenthal

The coronavirus economic lockdown caused ethanol demand, thus corn usage, to plunge this year but the long-term shows a limited future for the biomass-based fuel. Using projections for all-electric and hybrid automobiles sales, Bloomberg analysts forecast a return to conventional internal combustion engine use but not a full one, and one that eventually declines over time.

Over the next decade, demand for corn derived ethanol is likely to decline by nearly 15 percent. This will result in increases in corn carryout unless production slows, or new sources of demand are developed.



Exports to China: Cold Storage and COVID Containment

By Dave Juday

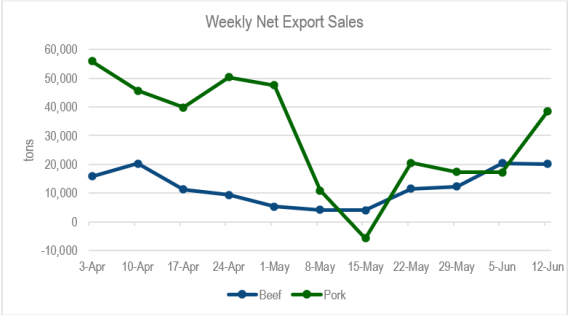
Record Pork Draw on Cold Storage Stocks

USDA released the monthly cold storage report. As of 1 June, inventory of pork in cold storage was 467 million pounds, 76 percent of 1 May and 26 percent of a year ago. That was a record draw down and inventory is at its lowest since 1 September 2011. As Matt Herrington has noted, that is another sign of the impact that COVID is having as stocks were not being replenished.

Beef was 87 percent of last month and 102 percent of last year, while chicken was 92 percent of last month and 103 percent of last year. For dairy, cheese was 98 percent of last month and 102 percent of last year while butter was 102 percent of last month and 121 percent of last year.

The draw on pork comes as the media, from the *New York Times* to *USA Today*, is making a story

of pork exports to China based on the April trade report data. Even Congress is getting into the act. Senators Cory Booker (D-New Jersey) and Elizabeth Warren sent a letter to the CEOs of the major meat packers questioning their export shipments, what was destined for China and what was destined elsewhere, as well as how many imported animals were slaughtered and processed.



Of course, export shipments are not the same as export sales; most of the shipments were sold and booked prior to the slowdown in meat processing which came in May, when export sales dropped. In fact, counting in cancellations, net sales dropped below zero in mid-May. Moreover, of the pork exports to China, about 25 percent was offal and another 30 percent was whole/half carcasses which helped clear a backlog of supplies while slaughter and processing were slowed down by the shortage of labor needed for slaughter and processing.

Meanwhile, the more pressing issue is China's recent action suspending exports from plants which have had COIVD outbreaks. So far, that includes chicken shipped from Tyson's Springdale, Arkansas plant, as well as pork from Toennies in Germany, and a voluntary suspension of beef shipments from Agra Agroindustrial De Alimentos in Brazil and pork from Danish processor Tulip.

Various importers from China are asking for signed declarations that "food imported into China is not contaminated with the COVID-19 virus and to ensure the safety of food imported into China." At least some of this is required by Provincial level governments. So far, this is limited to fresh/chilled/frozen commodities, which hits primarily meat and poultry exports, but there is concern about how far the requirement – or more importantly, the suspension actions on the China end might spread..

WPI INTERNATIONAL ANALYSIS

China In-Country Analysis

By Global Agribusiness Partners
Politics

Livestock

Ministry of Ag Reports Hog Inventories by Province

China's Ministry of Agriculture and Rural Affairs (MARA) recently released provincial level figures for the first quarter of this year for the country's hog inventories. The top fifteen provinces in China through March accounted for 228.5 million head or 71.1 percent of the national total. With a combined live hog inventory of 321.2 million head, the country's nationwide total is up 3.5 percent from the first quarter of 2019. Equally important, MARA reports that sow inventories climbed to 33.8 million through the end of Marcy, an improvement of 9.8 percent from the first three months of 2019.

FIRST QUARTER 2020 LIVE HOG INVENTORY, TOP 15 PROVINCES

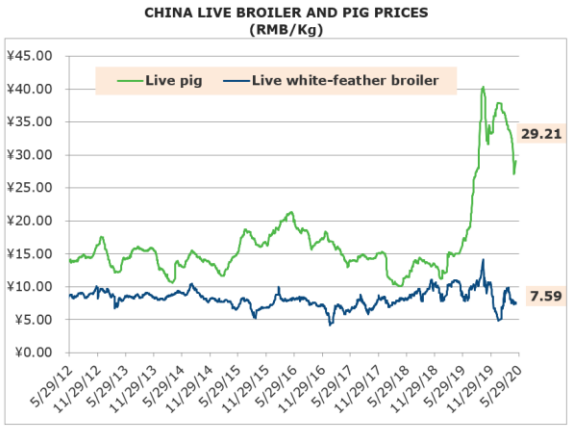
Ranking	Province	Hog inventory (1,000 heads)
1	Henan	33,030.3
2	Sichuan	29,867.0
3	Hunan	28,403.0
4	Shandong	21,803.0
5	Guangxi	16,704.4
6	Hebei	15,200.0
7	Heilongjiang	12,500.0
8	Guizhou	11,740.0
9	Anhui	11,410.0
10	Liaoning	11,080.0
11	Chongqing	9,480.0
12	Shanxi	8,050.0
13	Jilin	7,627.0
14	Jiangsu	6,210.0
15	Hubei	5,440.0
Top 15	Total	228,544.7

Data source: Provincial Bureaus of Statistics

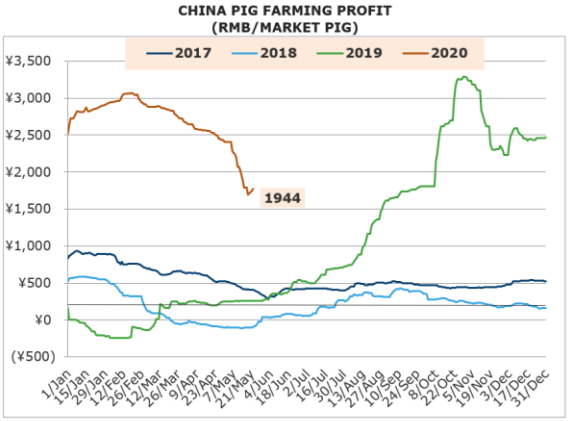
China's Live Hog and Pork Prices Continue to Recover

The latest official data from China's Ministry of Commerce show that national average pork wholesale price grew by 1.1 percent from last week through the end of May to RMB 38.65/kg ($5.42/kg) or RMB 17.53/lb. ($2.46/lb.). With China's government ordering state-owned enterprises to cancel recent orders of pork from the U.S., this should also support live hog prices going forward. The national live hog price rose by RMB 1.39/kg ($.19/kg) or RMB .63/lb. ($.09/lb.) to RMB 29.21/kg ($4.10/kg) or RMB 13.25/lb. ($1.86/lb.). The improving sales prices pushed up the average profit per live pig by RMB 167/head ($23.42/head) to RMB 1,944/head ($272.65/head).

In contrast, live white feather broiler prices headed in the opposite direction last week, a change from two weeks ago. The decrease, however, was rather modest as the national average price was down by just RMB .15/kg ($.02/kg) or RMB .07/lb. ($.01/lb.) to RMB 7.59/kg ($1.06/kg) or RMB 3.44/lb. ($.48/lb.).



Data Source: Boyar



Data Source: Boyar

Oilseeds

Soymeal Inventory Reaches Highest Level Since September 2019

Last week saw another triple digit increase in China's nationwide estimated soymeal inventory. Improvements in the pricing of soybean and soyoil led to stepped up crushing activity. Through last Friday, soymeal stocks totaled 641,600 MT, up by 120,600 MT (+23.1 percent) from the previous week. Regionally, the only decrease occurred in the Northeast, where inventories fell by 1,400 MT (-8.2 percent) to 15,600 MT. The largest increases in gross terms occurred in the East Region, Fujian, and Guangdong, where soymeal stocks ticked up by 58,200 MT (+24.0 percent), 20,000 MT (+125 percent), and 19,500 MT (+36.4 percent), respectively. On an annualized basis, going back to the last week of May 2019, last week's inventory was up by 700 MT (+.1 percent). As further points of comparison, China's nationwide soymeal inventory in 2018 and 2017 at this point in the year stood at 1.11 MMT and 1.39 MMT, respectively.

The recent news that China's state-owned enterprises, COFCO and Sinograin, have cancelled new soybean purchases from the U.S. over the Hong Kong issue, should slow the growth in inventories in June. However, those purchases were destined to restock state reserves. The larger issue remains China's currency, which will likely remain under pressure. The Brazilian real continues to appreciate against the yuan, which means that unless there is a sustained recovery in the hog feed sector, crush margins will remain low. Therefore, this rally in soymeal inventories, which are up 462,000 MT (+257 percent) in the past month should taper off.

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

	Northeast	North	Shandong	East	Guangdong	Guangxi	Fujian	Total
29 May 2020	15.6	31.0	48.0	300.3	73.0	137.7	36.0	641.6
Week-on-week	-1.4	2.0	13.6	58.2	19.5	8.7	20.0	120.6
Month-on-month	14.1	31.0	32.9	157.3	73.0	117.7	36.0	462.0
Year-on-year	-6.4	-5.0	12.1	-81.4	12.7	48.7	20.0	.7

Source : CoFeed, China Grain

Imported Soybean Inventories See Modest Retreats

With the exception of imported soybean stocks at the five major ports in Shandong, imported soybean inventories retreated modestly last week. In Shandong, imported soybeans inventories ticked up by 50,800 MT (+2.5 percent) last week to 2.09 MMT, raising the province's share of the national total to 33.4 percent. At the three ports in Jiangsu, inventories fell by 38,000 MT (-4.0 percent) to 914,800 MT or 14.6 percent of the national total. Outside of the three major provinces, imported soybean stocks at China's other major ports fell by 37,700 MT (-1.7 percent) to just under 2.20 MMT or 35 percent of the national share.

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

	Total	Other Ports	Shandong	Guangdong	Jiangsu
29 May 2020	6,261.9	2,199.9	2,090.1	1,057.2	914.8
Week-on-week	-26.9	-37.7	50.8	-2.0	-38.0
Month-on-month	302.5	263.9	-260.9	317.9	-18.5
Year-on-year	576.5	-340.9	617.9	253.5	46.1

Source : JCI

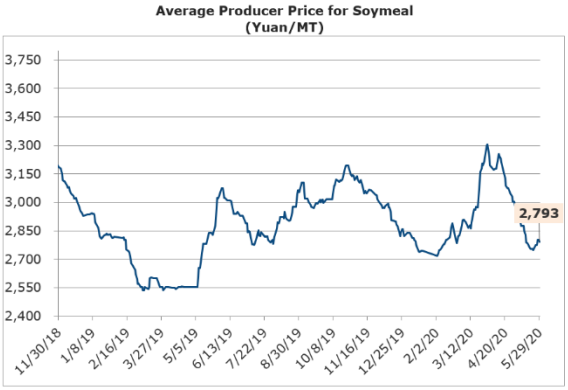
Source : JCI

Surging Soyoil Prices Pushup Crush Margins Slightly

China's yuan fell last week against the U.S. dollar by six-tenths of a percent, which resulted in a higher average landed cost for both U.S. and Brazilian soybeans. The average CNF price for

U.S. soybeans ticked up by $4/MT to $375, while for Brazilian soybeans, it was up $5/MT to $364/MT. On the product side, the average producer's price for soymeal headed in a positive direction, improving by RMB 45/MT ($6.31/MT) to RMB 2,793/MT ($391.73/MT).

Meanwhile, the average producer's price climbed sharply last week, rising by RMB 169/MT ($23.70/MT) to RMB 5,737/MT ($804.63/MT). Factoring in the tariff waiver on U.S. soybeans, the average crush margin ticked up by RMB 17/MT ($2.38/MT) to a loss of RMB 9/MT ($1.26/MT). For Brazilian soybeans, the average crush margin increased by RMB 9/MT ($1.26/MT) to RMB 83/MT ($11.64/MT). These modest crush margins will constrain buying and keep most crushers from building up substantial soymeal inventories, particularly after the recovery in May.



Source : China Grain

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

	Imported Soybeans Cost & Freight (USD/MT)	Exchange Rate (USD/CNY)	Soymeal Prices (RMB/MT)	Soybean Oil Prices (RMB/MT)	Crush Margin (Tariff-28%) (RMB/MT)	Crush Margin (USD/MT)
29 May 2020	375	7.13	2,793	5,737	-764	-107.1
Week-on-week	4	0.04	45	169	5	.7
Month-on-month	2	0.06	-237	124	-216	-30.3
Year-on-year	-12	0.23	-227	454	-100	-14.03

Source: JCI

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

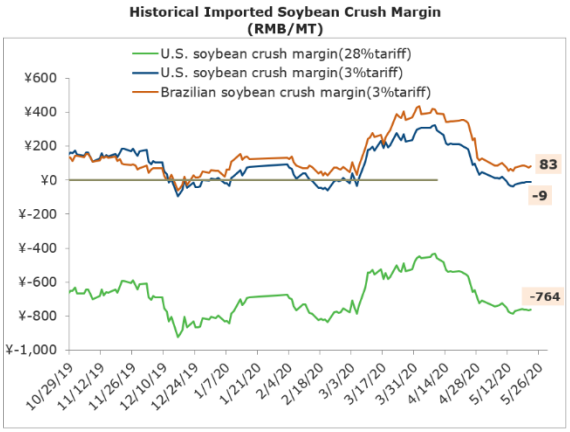
	Imported Soybeans Cost & Freight (USD/MT)	Exchange Rate (USD/CNY)	Soymeal Prices (RMB/MT)	Soybean Oil Prices (RMB/MT)	Crush Margin (Tariff-3%) (RMB/MT)	Crush Margin (USD/MT)
29 May 2020	375	7.13	2,793	5,737	-9	-1.3
Week-on-week	4	0.04	45	169	17	2.4
Month-on-month	2	0.06	-237	124	-206	-28.9
Year-on-year	-12	0.23	-227	454	-99	-13.9

Source: JCI

China's Imported Soybean Crush Margin on Brazil Soybeans

	Imported Soybeans Cost & Freight (USD/MT)	Exchange Rate (USD/CNY)	Soymeal Prices (RMB/MT)	Soybean Oil Prices (RMB/MT)	Crush Margin (Tariff-3%) (RMB/MT)	Crush Margin (USD/MT)
29 May 2020	364	7.13	2,793	5,737	83	11.6
Week-on-week	5	0.04	45	169	9	1.3
Month-on-month	10	0.06	-237	124	-271	-38.0
Year-on-year	-34	0.23	-227	454	81	11.4

Source: JCI



Source : JCI

Grains

State Reserve Auctions Begin, Strong Demand Supported by Traders

Last Thursday, China's National Grain Trade Center held its first auction of state reserved corn, which is about three weeks later compared to last year. The turnout was heavy and dominated by trading companies, which comprised about 70 percent of the attendees compared to processors, which represented 30 percent. The total turnover amounted to 4 MMT, which was comprised of corn from the CYs 2014 and 2015. The average purchase price amounted to RMB 1,700/MT ($238.43/MT) with the highest price offered being RMB 1,960/MT ($274.89/MT) and the lowest offered price being RMB 1,570/MT ($220.20/MT). The following table shows the minimum or floor price for this year's auctions, which are the same as last year.

NATIONAL GRAIN TRADE CENTER AUCTION

Region	Minimum/Floor Price (RMB/MT) 2014 crop	2015 crop
Liaoning, South of Tongliao City of Inner Mongolia Autonomous Region	1,650	1,700
Jilin	1,600	1,650
Heilongjiang, North of Xing'an league of Inner Mongolia Autonomous Region	1,550	1,600

Source: National Grain Trade Center

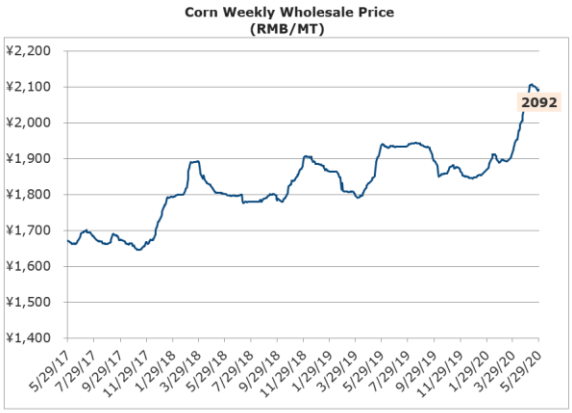
The solid turnout for the reserved corn auction kept the domestic corn price at a relatively high level, despite downward pressure in Shandong and Jilin. Declining margins in corn processing in Shandong continued to push down demand as the average price fell by RMB 18/MT ($2.52/MT) to RMB 2,168/MT ($304.07/MT). In contrast, the average corn price in Guangdong shot up by RMB 30/MT ($4.21/MT) to RMB 2,150/MT

($301.54/MT). The mixed trends regionally resulted in the national average corn price edging down by RMB 5/MT ($.70/MT) to RMB 2,092/MT ($293.41/MT).

On the deep corn processing side, the average price of cornstarch in Shandong ticked down by RMB 50/MT ($7.01/MT) to RMB 2,580/MT ($361.85/MT). Similarly, the average ethanol price in Shandong fell by RMB 20/MT ($2.81/MT) to RMB 2,080/MT ($291.73/MT). In contrast, in Jilin, corn product prices, including ethanol, were unchanged.

China Corn Wholesale Price (RMB/MT)						
	Nationwide	Heilongjiang	Jilin	Liaoning	Shandong	Guangdong
29 May 2020	2,092	1,915	1,967	2,045	2,168	2,150
Week-on-week	-5	0	-10	-3	-18	30
Month-on-month	32	25	27	27	24	-10
Year-on-year	153	150	156	159	148	123

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
29 May 2020	2,190	2,580	4,500	-56	1,810	2,450	4,600	284
Week-on-week	0	-50	-60	-56	0	0	0	-7
Month-on-month	-10	-70	-150	-57	0	0	100	11
Year-on-year	150	50	380	-63	60	200	580	273

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
29 May 2020	2,200	5,520	2,080	202	1,770	5,300	1,900	493
Week-on-week	0	0	-20	-15	0	0	0	-2
Month-on-month	50	20	-70	-177	0	-25	-50	-26
Year-on-year	120	620	30	329	20	450	100	216

Source: JCCE

Mercosur Regional Analysis

By WPI Staff

Argentina Macroeconomic and Policy Situation

Things are generally becoming more complicated in Argentina. After nearly 90 days of COVID-19 quarantines/lockdowns, the worst seems still to come relative to the disease. Many companies are going bankrupt, unemployment and poverty are surging, shops are closing permanently, etc. The government cannot keep printing money and tax revenues (from VAT taxes, gross earnings taxes, income taxes, etc.) have dropped significantly. Argentine policymakers are now discussing reducing monies given to companies to help pay salaries. At the same time, debt negotiations seem to be stuck, despite the fact the country is edging closer to default every day. This impacts the exchange rate, country risk, Argentine-based companies' value, and it works against the economic recovery of the entire country. Even so, it seems that an agreement will be reached sooner rather than later.

In the agricultural sector, people are extremely alert and are ready for massive demonstrations as each day brings news and rumors of different policies that will negatively affect farmers. There are rumors the government wants to fix the exchange rate to its value as of 30 September, trying to trigger more farmers selling grain. That means all exports done after September will be liquidated at the exchange rate on 30 September. There is also a project trying to limit the use of phytosanitary products and application to at least 1,500 meters (0.93 miles) from rural towns. Also, fertilizer and herbicide importers need to adjust their prices because of the restrictions they have accessing the official exchange rate. Moreover, non-farming citizens are attacking farms and destroying silo bags filled with grain.

Finally, there is the Vicentin case, which is increasingly complicated for the government. The negative reaction from citizens, farmers, industrial and company unions, etc. was huge. The government is now looking at other methods for handling the bankruptcy beyond expropriation of the soy crusher. It seems they are

afraid of the protests, strikes, and blockades from farmers similar to that of 2008. The judge in charge of the Vicentin´s Chapter 11 filing stopped the government's planned expropriation, pressured by the bad image of the decision among the population, especially in the province of Santa Fe. The governor of Santa Fe is presenting a proposal to overcome the expropriation of Vicentin and find a more agreeable way to manage the bankruptcy. The proposal is still being finalized but it could be a tripartite scheme between the company, the province of Santa Fe, and Argentina's national government.

Wheat

Last week's rains were disappointing for areas that needed moisture to progress with planting. The Rosario Grain Exchange estimated that some 200,000 hectares in Cordoba and Santa Fe are waiting for rain while the planting window draws to a close. This is prompting the Buenos Aires Grain Exchange to lower its planted area estimate by 100,000 hectares, down to 6.7 million hectares (Mha). The lost acreage could have been larger, but there is some switching of barley acres to wheat.

The FOB market has been quiet for both the old and new crops. The old crop market will only move once Brazilian millers need wheat and appear in the market. There is some demand from this origin right now, but only for August or deferred positions and bids are some $12-15/MT below offers.

The new crop market also remains quiet with bids/offers steady with the past few weeks. Bids are at $189/MT for 11.5 percent protein wheat Upriver while offers for the same are at $194-195/MT. Offers for a full panamax vessel (trying to catch Asian demand) are slightly below $200/MT.

Farmer selling has hit 18.3 MMT (83 percent) of the old-crop and 2.7 MMT for new crop (13 percent). Despite steady new crop prices (ranging from $160-162/MT), exporters are showing less purchasing interest. This makes sense as they have already booked large volumes and there is no demand in the FOB market. Moreover, the "official" FOB price (upon which exporters have to pay taxes) is still very high and above the real market – further discouraging sales.

Corn

The corn crop is drying in the field rapidly and good weather is allowing harvest to move faster. Harvest progress advanced 10 percent last week and reached 70 percent of the total area. This is 26.5 percent ahead of last year's pace. Due to the harvest progress, the flow of trucks to ports increased last week.

During the first half of June, 2.4 MMT of corn was exported and the month will likely end with slightly more than 3.5 MMT in exports. According to export declarations, the July lineup should be about 4 MMT. There is some variance in this projection, however, as export declarations could be used up to 30 days later than the stated time period. Typically, July is a month with a big lineup as it corresponds with the entrance of the late-planted corn crop.

Exporters need to ensure a good flow of trucks to ports and so they have been very active in the FAS market. Many have been paying several dollars higher this week to procure needed supplies.

The FOB market saw premiums move 5 cents/bushel lower on both bids and offers last week. There is some small volume still left to be done for July while the biggest volume is now focused on August and September. The panamax market developed more clearly last week with Argentine offers 20 cents below Brazilian quotes. That is enough for Argentine exporters to be competitive against Brazil. There is still some demand for panamax vessels, but bids/offers are still 10 cents apart for both origins. The Brazilian market ended last week bid 70U versus offered 80U for August/September while the Argentine market was bid 50U and offered at 60U for the same shipment.

Soybeans

Brazil

The Brazilian market remains slow with farmer selling well above normal levels at 90 percent. The unsold 10 percent has six-seven months to be sold, meaning the market will be very illiquid

until the new crop arrives next spring. Replacement in Mato Grosso is close to 180Q FOB, which is well above the export parity. The FOB market for September is 145X, which is still expensive as the Chinese prefer to buy U.S. soybeans. Consequently, there have been no trades heard recently in Brazil for the MY 2020. China has been buying some U.S. cargoes, though movement there has been slow as well, due to poor Chinese crush margins.

Through Friday, Brazil shipped 7.3 MMT in June and is expected to finish the month with 12 MMT loaded. Of that, 8 MMT is expected to head to China. The country has already shipped 56 MMT of soybeans YTD and June's loadings should bring the total to 60-61 MMT. In 2018, Brazil shipped 50 MMT during the same period, and 45 MMT in 2017. So, the 2020 volume will be another record high. Export volumes should drop quickly, however, as Brazil will run out of soybeans if the country keeps exporting at record levels.

WPI expects Brazil to Export 79 MMT in the coming year, which is below USDA's expectation of 85 MMT. If 61 MMT is exported by the end of June, WPI estimated there will be 18 MMT of soybeans available for export during the rest of the year (averaging 3 MMT per month), using the same carry-in as carry-out. Some other analysts are starting to believe production was larger than currently expected.

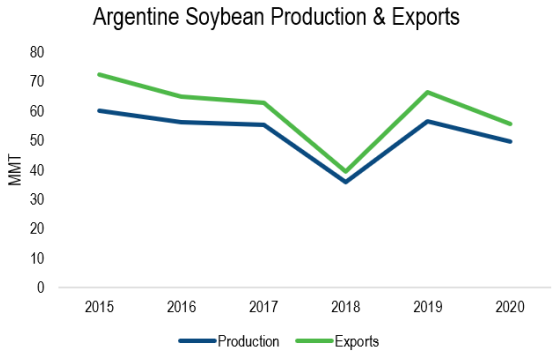
Using 123.5 MMT of production, local crush of 44 MMT leaves a balance of 79.5 MMT for export. But if the "feed, seed and residual" line item is added, there has to be a larger production figure or smaller export forecast to keep ending stocks unchanged.

Looking at the coming crop, the market is again very slow. The lack of farmer selling leaves traders at a standstill and in no hurry to make sales. Trading houses are long new crop soybeans by 5-8 MMT. These soybeans were originated at lower levels than the current market, so some of trading houses would like to put sales (and profits) in the books. The problem is that demand is weak as China has already covered a large volume of its soybean needs and is waiting for cheap prices or better crush margins. Traders have been slowly dropping asking prices, looking for demand, though buyers have been few. Consequently, the market has been slow with few relevant happenings.

Farmers have forward sold some 40 percent of the expected new crop production (128 MMT) – which is more than typical. Consequently, farmers are not in a hurry to increase their sales as this crop hasn't even been planted yet (seeding begins at the end of September or early October).

Argentina

The old crop soybean market is quiet and total loadings during June hit 944,000 MT with a vessel lineup of 912,000 MT. Issued export licenses for the present campaign have reached 5.8 MMT so far and it seems like Argentina will end the year with 6-65 MMT of exports, down from 10 MMT last year. Given this export forecast, the country's soybean ending stocks will increase substantially. The old crop soybean market is quiet and total loadings during June hit 944,000 MT with a vessel lineup of 912,000 MT. Issued export licenses for the present campaign have reached 5.8 MMT so far and it seems like Argentina will end the year with 6-65 MMT of exports, down from 10 MMT last year. Given this export forecast, the country's soybean ending stocks will increase substantially.



Argentine crush margins are still weak (about $5/MT) and the ownership of crushers is nearly zero.

In the FOB market, there are sellers of August positions at 70Q and last week saw the first trades of new crop (2021) soybeans. A cargo was sold FOB at -5N for May 2021 shipment.

Uruguay
There are very few offers in the local market and in the FOB market there were some offers for parcels at 90Q for August shipment.

Paraguay
Replacement in the local market gives levels of 110Q CIF Upriver ports. Buyers are showing interest at 85Q CIF Upriver, so there is a big gap between bids and offers. Farmers have already sold the 75 percent of the crop.

WPI POLICY ANALYSIS

Phase One Trade Deal in the Middle of U.S. China Tensions

By Dave Juday

As protests turn to urban riots in a number of U.S. cities, the social media rhetoric from China has been ratcheted up a notch trolling the U.S., including posts from the Chinese foreign ministry drawing parallels to the U.S. position on the protests in Hong Kong. As we've noted previously, the diplomatic relationship between the U.S. and China is frayed, at best, which casts a great deal of uncertainty over the Phase One trade deal.

There are news – and market – reports that the Chinese government has instructed its state-owned enterprises (SOEs) to stop purchasing U.S. commodities, namely soybeans and pork in response to President Trump's announcement on Friday about the China/Hong Kong situation. The U.S. had recognized Hong Kong under the "one country, two systems" status, but will now subject Hong Kong to the same treatment as China, including:

- Issuing a travel advisory for U.S. citizens regarding Hong Kong
- Revoking Hong Kong's preferential customs and travel agreements, from extradition to dual use technology trade

In addition, it will direct the Working Group on Financial Markets to study the differing practices of Chinese companies listed on the U.S. financial markets and terminate the U.S. relationship with the World Health Organization (WHO) over its ties with China.

However, the President did not threaten to impose trade sanctions or stop the Phase One agreement.

Recently, China's SOEs have been buying Brazilian beans and are looking to book more shipments despite higher prices than U.S. soybeans. Some of this, however, is being attributed to hedging some political risk fallout from escalated tensions with the U.S. sinking trade relationships. On the other hand, market reports indicate that Chinese buyers were still shopping for soybeans.

One contact likened the foreign policy situation to a messy divorce, with much wrath and acrimony from both sides with the Phase One trade deal being the child that both parties would like to protect from the chaos and name calling. Indeed, China needs the imports, and with the bearish COVID market the U.S. needs the exports. Recall that on 21 May, China opened up to more U.S. commodities, including barley and various forage products for feed, as well as expanding the list of U.S. pork, beef, poultry and dairy plants eligible to export to China.

Both USTR and USDA acknowledged China's actions in a statement, with USDA Secretary Perdue saying, "We look forward to continued cooperative work with China on implementation of Phase One commitments, and immediate increases in U.S. exports of all manner of agricultural products."

Prior to the White House announcement, USDA lowered its export forecast for China to $13 billion for the fiscal year ending 1 October from the February estimate of $14 billion. That would compare to FY 2019 total shipments of $10.1 billion. In its forecast, USDA noted "China has been sourcing record volumes of soybeans from Brazil," but also notes that pork and sorghum exports have been driven by Chinese demand. The general slowdown forecast by USDA is based on the economic conditions, post CVOID in China. Initial economic growth forecasts had China's GDP growing at 5.2 percent in FY 2020,

down from 5.7 percent in FY 2019. GDP growth has since been revised down to 0.4 percent.

USDA also dropped its forecast for exports to Hong Kong to $2.5 billion, down from $3 billion based on the current pace of shipments. In FY 2019, U.S. ag exports to Hong Kong were $3.5 billion.

Rethinking Development Agriculture; Rethinking Economics

By Gary Blumenthal

Rethinking Development Agriculture

Diego Restuccia, a professor of economics and Canada Research Chair at the University of Toronto examined the total factor productivity (TFP) differences between developing countries and rich countries and found the misallocation of resources to be a significant factor in TFP. His paper, The Impact of Land Institutions and Misallocation on Agricultural Productivity, Rethinking Development Agriculture; Rethinking Economics, found blame lies with policies and development institutions. Smallholder farms often receive subsidized credit and subsidized inputs and yet still have low productivity. This input/output failure indicates a misallocation of resources.

Professor Restuccia utilized the Living Standards Management Study-Integrated Survey of Agriculture developed by the Gates Foundation and utilized by the World Bank and found a source of the failure is communal land rights. In China, he says if inputs like land were allocated to best uses, agricultural productivity could increase by 24 percent within villages, "and up to 53 percent if resources could also be reallocated across villages." In short, much of the work by institutions intended to help poor farmers fails for a straightforward reason – misallocation of resources.

Rethinking Economics

USTR Robert Lighthizer echoed for the U.S. what is also being said in Europe – that COVID-19 is showing the need for an industrial policy that can prevent the pain of broken long-distance supply chains. Industrial policy is an awful approach for market economists because of its tendency to misallocate resources. The heartening message was that Mr. Lighthizer spoke with Australian Trade Minister Simon Birmingham about "finding a good candidate for the WTO director-general position." If Lighthizer and his boss President Trump were protectionists at heart, they would not be asking Australia's thoughts on a new WTO director-general. The land Downunder consistently ranks in the top ten for free trade policy in the Index of Economic Freedom

Trump Trade Policy Explained; Future Concerns; Dead-end Job

By Gary Blumenthal

Trump Trade Policy Explained

In a Foreign Policy Magazine article by USTR Robert Lighthizer, the Trump Administration's trade policy is explained as a rejection of the historic bifurcated view of it either being geopolitical or economic, and instead the focus being on the well-being of Americans. Specifically, the goal is to maximize competition to the point that it doesn't hurt the half of Americans that are not college educated and have been hurt most by outsourcing manufacturing. He says it is callous for ivory-tower types to argue free trade should prevail and society should be forced to adapt. He believes trade policy should reflect the type of society that is desired.

He defends the Administration's kinetic approach toward forcing trading partners to better match America's market access, arguing that even after raising tariffs, the U.S. trade weighted average tariff is only slightly above the level during the Obama Administration and remains half that of applied by the European Union.

On one hand, pure free trade economic policy sacrifices workers that are less able to adapt. On the other hand, making trade policy reflect the subjective goals of a disparate society is why American farm exports face barriers in so many other countries. The latest example of this approach is the UK's decision that American poultry and beef cannot receive lower tariffs if

produced in a manner different than British products.

Future Concerns

A recently retired, career USTR official said they remain committed to the removal of global trade barriers and made note of the ascendant policies that will become future constraints on trade. These include:

- Sustainability since it has no singular, science-based definition.
- Labeling and nutrition requirements that turn food into prescriptions, again not always science-based.
- Food self-sufficiency (e.g. India is raising its edible oil import tax in order to become self-sufficient since this approach successfully worked for wheat, rice and corn).
- SPS barriers will continue to grow as favored approach, including via the precautionary principle.

They also noted the growing influence of non-agricultural voices with less knowledge about the complexity of the sector.

Dead-end Job

There are now at least eight candidates for the post of director-general of the WTO and the list will grow longer. This will likely be one of the most competitive efforts to lead the organization, which is good and odd. The WTO is at a watershed moment, badly needing change and yet facing huge resistance to reform. With so many candidates, it will be difficult to get consensus around one finalist, and the winner of the contest may face a winless effort to change things. Instead of blocks of influence, the winner should be chosen based on persuasiveness and indefatigability.


WORLD PERSPECTIVES
AT THE NEXUS OF POLICY & MARKETS