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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.

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

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

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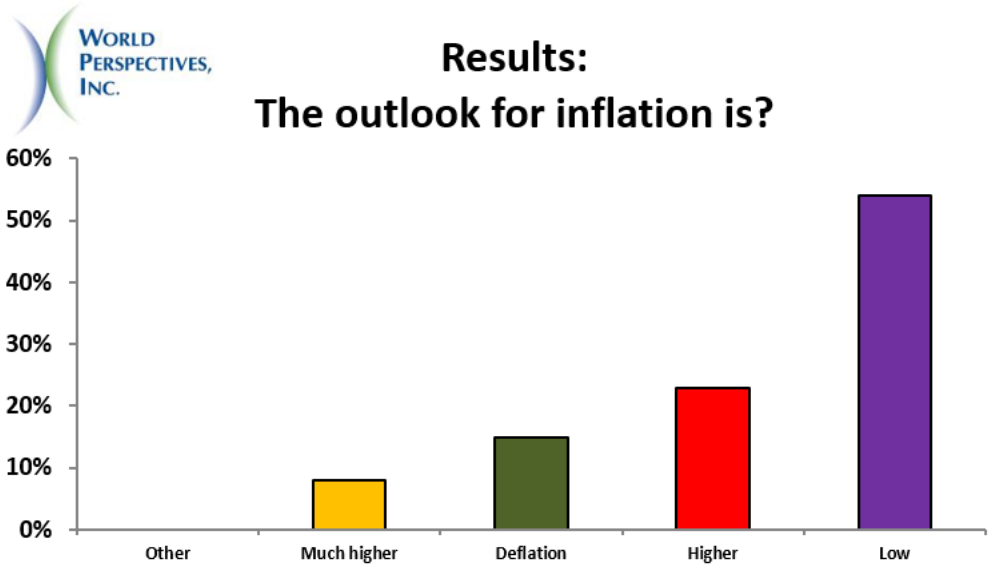
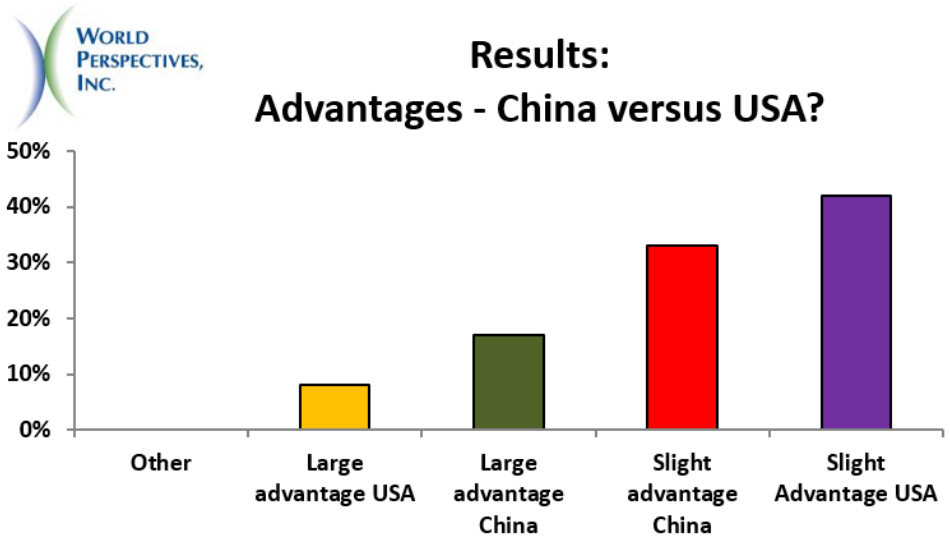
WPI POLLING

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



Source: WPI online poll FH October 2020



Source: WPI online poll LH October 2020

FROM THE WPI TEAM

A Lot Has Happened, There is More to Come

By Gary Blumenthal

What a difference a year makes, and the calendar year is not even over yet! We have worked our way (remotely) through a pandemic and a trade war, we've seen commodity prices rise, fall and rise again by 20 percent or more in value, and we still face a major election, plus year-end holidays that are framed as infection risks. It is hard to look ahead without looking behind.

One way or another, the impending U.S. election will change things. It could result in a newly emboldened incumbent administration, or the shift to an alternative agenda newly focused on climate change and health care. Either outcome will still confront an economy wrecked by COVID and in need of infrastructure changes.

Notably, "experts" in Washington do not expect either party to change the current confrontational approach toward China, and some do not expect a big change in overall trade policy. Allies hope that a President Biden would remove the punitive tariffs imposed on them by Mr. Trump but, as David Lynch of the *Washington Post* frames it, the pain of Trump tariffs has already been incurred and a President Biden might as well extract some concession for removing them.

There are even more cautionary forecasts. For example, if Mr. Biden wins, President Trump may make end-of-term decisions that become new political challenges for his successor. For example, he could announce that stealth weapons will be sold to Taiwan, leaving his successor to confront Beijing's wrath, or looking weak for reversing the decision. In any event, Mr. Trump has changed the world and neither he nor his legacy are going away anytime soon.

As noted in this month's Ag Review, much has happened but there is even more left to confront in the last two months of 2020. We are glad to be spending them with you. Happy reading.

Gary

WPI MARKET ANALYSIS

What a Difference a Year Can Make

By Bob Kohlmeyer

In some manner every annual crop cycle is different from its predecessors even if those differences are small enough to fade from memory over time. However, the 2020/21 crop cycle has already clocked enough differences compared to the recent past to suggest it may become a more memorable one. This is hinted at by looking at CME futures prices.

CME SRW futures are trading roughly about $0.50 higher than a year ago. Soybean futures prices are running about $0.80 higher than during October 2019. Soyoil futures prices are up a sharp 270 points or so (2.7 cents/lb.) from a year ago. Corn futures are the only market not showing a big jump over last year. They are currently trading near the same level as a year ago.

All of this is in the face of a large soybean crop for which harvest is winding down and the second largest U.S. corn crop for which harvest should be over 50 percent complete by this coming weekend. U.S. wheat supplies are down from recent years thanks mainly to the smallest winter wheat acreage in more than a century. The estimated 2020/21 wheat carryout will be lower than recent years, but it is still large enough to show a stocks/use ratio over 42 percent.

Even given the relatively large U.S. grain and soy supplies, the prospect of heavy demand is promoting the higher prices. The combined feed/residual volume of corn and wheat that disappeared in the June-August quarter implied by USDA's 1 September stocks report indicates that a record amount of grain was fed during the quarter.

Future quarterly stocks reports may cause modifications to feed/residual numbers, but it appears that large scale corn feeding is making up for the lower use of corn for ethanol. However, the major factor pushing demand expectations is directly related to the Phase One trade agreement signed by China and the U.S. in January 2020. Part of the agreement calls for China to ramp up purchases of U.S. agricultural products in 2020 and 2021. Despite the subsequent deteriorating diplomatic relations between the U.S. and China and occasional hints by the Chinese that those diplomatic disputes might jeopardize the Phase One agreement, it appears that China is working to fulfill as much of its 2020 purchase commitment as it can. The result is that total U.S. 2020/01 export commitments for corn and soybeans through 8 October are very large and in the case of soybeans, record large.

As of 8 October, total 2020/21 export commitments for U.S. corn had reached 25.848 MMT which is about 44 percent of USDA's predicted total corn exports for the entire CY 2020/21. Of that total, export commitments to China are 9.975 MMT, a very impressive amount especially given that it has been many years since China imported U.S. corn. Wednesday's announcement from USDA of new sales of 420,000 MT of corn to China ensures that China's total corn purchases will be well above 10 MMT in the next weekly export sales report due out Friday. Incidentally, so far during 2020/21 China has purchased 2.2 MMT of U.S. grain sorghum which is 75 percent of all grain sorghums sold for export thus far in 2020/21. Rumors have China buying up to 120,000 MT of additional grain sorghum in recent days.

Also, as of 8 October, USDA reported total 2020/21 export commitments for soybeans had reached 40.720 MMT, a record volume for the date. USDA's October export prediction for U.S. soybeans was 45.6 MMT, so that prediction may increase in future months. Of the total soybean export commitments, 22.1 MMT or 54 percent

are named destination China. One could argue that given the rapid expansion of China's livestock numbers this year which is driving up its need for soybeans and corn, these purchases might well have occurred anyway.

Chinese domestic corn prices have risen sharply since government corn auctions apparently drained government reserve stocks of feed quality corn. Clearly, cheaper corn imports made economic sense, and the U.S. has been the cheapest source of corn for several months.

Moreover, Brazil's earlier massive soybean exports, much of which went to China, left the U.S. as the only major world source of soybeans from last summer into new crop positions. Once presumably cheaper new crop Brazilian soybeans (now being seeded) become available next February, China is expected to switch its soybean buying back to Brazil.

Does the market really care whether the Phase One agreement or China's basic needs have been the driving force behind surging Chinese soybean and corn purchases from the U.S.? We doubt it. Fear that the stock market will undergo a deep correction and/or inflation would begin to climb would no doubt have caused fund managers to pour money into commodities including ag commodities anyway. Their combined long futures position in soybeans, soyoil and soymeal has reached record proportions. They, and the market as a whole, are also closely watching South American weather as well as droughty conditions in Russia's winter wheat regions and the U.S. Southern Plains. The latest weather forecasts indicate some moisture relief is coming to all of these areas during LH October, but the amounts and coverage remain question marks.

Production of large soybean and corn crops in Brazil and Argentina are needed to keep world supply demand balances from becoming very tight, so South American weather will be a daily market driver until those crops are realized. The same is true of the 2021 Russian winter wheat crop. With all of these factors in play traders and everyone along the food marketing chain will face higher market volatility and more trading opportunities during the balance of 2020/21 if not beyond.

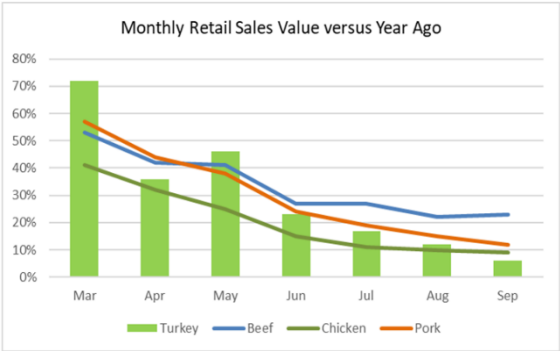
Fauci Talks Turkey

By Dave Juday

Dr. Anthony Fauci, director of the National Institute of Allergy and Infectious Diseases, has recommended that American's may have to "bite the bullet and sacrifice" the traditional Thanksgiving dinner celebration this year – as he noted his family will. What does that warning – about 40 days before the holiday – mean for turkey demand?

If the Thanksgiving demand is changed this year because of COVID, there presumably would be a demand for more but smaller birds due to fewer extended gatherings and more small gatherings.

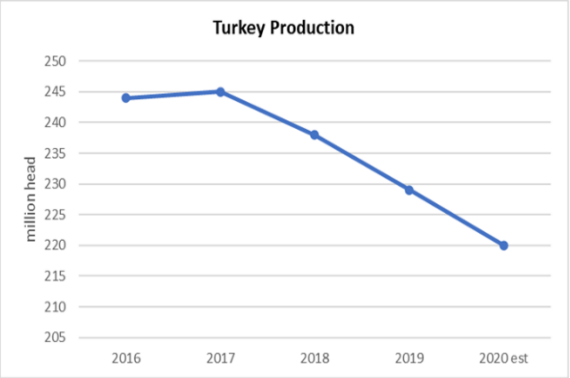
Turkey production, like broilers and red meat, has been dealing with COVID already. Turkey breast meat is dependent on food service demand, and the placement of toms has slowed because of that interruption. In March when the pandemic began, retail turkey sales value grew more year-over-year than other species, however through September, turkey has been the least able to maintain that value from additional retail sales revenue. Additionally, exports through September are down 14.3 percent from the same period in 2019.



Source: IRI, WPI

Also, like other species operations, re-configuration of plants, labor supply and other COVID issues has pressured slaughter operations and created bottlenecks. Through last week, total slaughter was down 1.3 percent on the year

compared to 2019, and production was down 2.2 percent. These changes have reduced overall placements and pushed up weights for toms, while weights for hens is down. Lower placements and bird production have been an ongoing issue for the industry starting well before COVID.



Source: USDA, WPI

Is the Latest Milk Price Rally the Last for the Year?

By Dave Juday

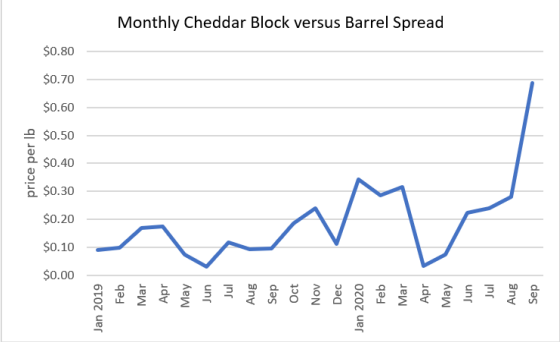
After inching their way up last week, Class III milk futures broke $20/cwt and stayed there today. Cheese prices remain strong, but with a big gap in the cheddar block and barrel prices.

CME cash trade cheese prices closed today at $1.99/lb. for barrels and $2.6375/lb. for blocks – a spread of $0.6475/lb. Over most of the past 20 years, the per pound price between block and barrels has been very close, averaging a difference of about 1 cent. That started to change in 2017 when the spread began to increase.

The average price spread for 2014-2016 was $0.0116 per pound. The spread increased to an average of $0.0946 per pound from 2017-2019 as barrel prices lagged block prices. The spread in the prices came from several market factors:

- Oversupply of milk leads to more barrel production versus block production
- Demand for dry whey leads to more barrel production (more efficient to get whey from barrel production)
- Reduction in demand for processed cheese (which is what barrel cheddar is further processed into)
- Increased export demand for cheddar which is supplied by block cheddar.

This year, food purchase and distribution programs – especially the Food Box Distribution program - have boosted block production and driven up prices. Most of the purchases are of block cheese.



Source: CME, USDA, WPI

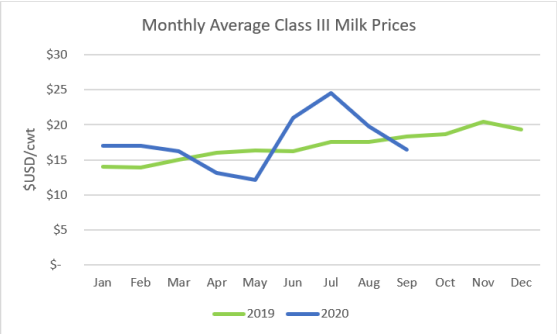
Through last week, cheese manufacturers report strong demand from government and feeding programs; but this demand is limited at the end of the year. So far, the feeding programs are making up for some lost restaurant demand and spotty school demand and lack of sporting events and social distancing that is limiting tailgates, concessions sales, in-home gatherings, etc. Pizza delivery demand is helping Italian type cheese.

The demand is spotty across regions of the U.S. as the economic reopening proceeds state by state, with California and New York reversing some of the openings. This weighs on food service demand. Stronger cheese prices are dampening export competitiveness, and barrel supplies are starting to build.

To date, milk prices have mostly defied COVID other than during the peak of the outbreak in April and May (which coincided with the spring flush of milk production). And after a drop in September, prices are starting to rally again. But higher milk prices are leading to more production. August was up 1.8 percent over 2019. It will be difficult to hold these higher prices if

production, which is running above last year, continues. Meanwhile, feed costs are increasing for dairy producers.

Typically, there is an end-of-the-year increase in demand with the holidays coming, but this year that demand possibly will be less than normal with social distancing restrictions on gatherings. The Class III futures price was under $18/cwt today, a $2.66/cwt discount to the October contract.



Source: USDA, WPI

For the year to date, the all-milk price has averaged about $18/cwt, compared to $18.60 last year, but this year there's been an additional $1.40/cwt in CFAP payments. The outlook for milk prices and dairy depends on whether the phaseout of payments and purchases coincide with a return in demand from food service and exports; retail demand remains firm.

WPI INTERNATIONAL ANALYSIS

Dalian Futures Market Analysis

By Global Agribusiness Partners

Monthly Summary

September Surge Driven by Soybean Complex, Palm Olein, and Corn

With China's economy rapidly returning to pre-COVID-19 levels in the third quarter, trading in agricultural related contracts surged in September by almost 34 percent. The combined volume for the nine agricultural commodity futures categories totaled 138.03 million lots, a year-on-year increase of nearly 178 percent compared with September 2019.

Soymeal was the top commodity with a total monthly volume of 38.6 million, a monthly increase of more than 52 percent. It was followed by palm olein, corn, and soyoil with monthly volumes of 27.3 million, 25.8 million, and nearly 23 million lots, respectively.

September's activity represented a solid continuation of Dalian activity so far in 2020. Through the first nine months of the year, combined volume has amounted to just under 889 million lots. Soymeal and palm olein trading volume has accounted for 53 percent of the total. Overall, the volume for these nine agricultural commodities is up by nearly 108 percent from the total for the first nine months of 2019. Equally important, the trading volume of these contracts has accounted for just under 60 percent of the total trading activity on Dalian's futures markets during the first three quarters of 2020.

To put this in the perspective of physical commodities, each lot equates 10 MT. That means for September, the total traded volume for soymeal amounted to contracts covering more than 386 MMT of soymeal. By comparison, the country is expected to import 95 MMT of soybeans for MY 2020/2021 per USDA forecasts. Not to be outdone, corn futures trading in September covered a physical volume of nearly 258 MMT, whereas USDA's consumption forecast for the upcoming marketing is a projected 280 MMT.

September Trading Volume, Agricultural Futures Contracts (Lots)

Commodity Contract	Monthly Volume	Change (YoY)	Change (MoM)	Jan-Sep Volume	Change (YoY)
Corn	25,785,873	247.19%	39.76%	118,630,748	71.13%
Cornstarch	4,095,618	250.82%	46.69%	17,439,684	44.98%
Egg	11,634,668	213.07%	13.75%	109,417,359	422.81%
RBD Palm Olein	27,254,314	255.42%	15.16%	225,298,807	357.38%
Round Grain Rice	796,043	647.68%	11.51%	2,762,822	748.33%
No. 1 Soybeans	4,526,451	189.17%	-7.76%	44,584,407	233.54%
No. 2 Soybeans	2,325,384	91.43%	67.43%	12,099,973	-11.27%
Soybean Meal	38,622,201	107.88%	52.20%	247,168,999	25.36%
Soybean Oil	22,985,041	178.42%	45.48%	111,191,024	115.25%
Total	138,025,593	177.72%	33.59%	888,593,823	107.76%

Source: Dalian Commodity Exchange

On a value basis, palm olein led the way with a monthly turnover of RMB 1,641.71 billion ($241.89 billion), a nearly 21 percent increase from August. Soyoil was a close second with a total of RMB 1.596.22 billion ($235.19 billion), a monthly increase of 58 percent. Soymeal turnover ranked third overall with a total of RMB 1,167.9 billion ($172.08 billion). The combined total for the nine agricultural futures categories in September amounted to RMB 5,860.03 billion ($863.43 billion), representing more than 52 percent of the total monthly turnover on the Dalian Exchange in September.

Through the first three quarters of 2020, total combined turnover for agricultural related futures contracts stands at RMB 35,299.83 billion ($5,201.17 billion). Palm olein, soymeal, and soyoil have accounted for nearly 74 percent of the total through the first nine months of the year. On

an annual basis, the year-to-date total through September represents an annualized increase of more than 150 percent. Moreover, the turnover for the nine agricultural categories has equated to about 50 percent of the total on the Dalian Exchange through this past September.

September Turnover, Agricultural Futures Contracts

Commodity Contract	Monthly Turnover RMB (billions)	Monthly Turnover USD (billions)	Change (YoY)	Change (MoM)	Jan-Sep Turnover RMB (billions)	Jan-Sep Turnover USD (billions)	Change (YoY)
Corn	620.29	91.40	346.87%	47.77%	2,578.34	379.80	94.64%
Cornstarch	110.56	16.29	320.19%	51.68%	436.26	64.28	55.67%
Egg	408.38	60.17	147.57%	7.31%	3,820.90	562.98	333.50%
RBD Palm Olein	1,641.71	241.89	342.11%	20.91%	12,101.01	1,783.00	434.14%
Round Grain Rice	27.56	4.06	639.54%	10.80%	96.02	14.15	704.17%
No. 1 Soybeans	203.58	30.00	272.20%	-8.47%	2,016.77	297.16	337.67%
No. 2 Soybeans	83.83	12.35	109.54%	79.64%	391.22	57.64	-5.56%
Soybean Meal	1,167.90	172.08	118.42%	60.00%	7,032.87	1,036.24	29.35%
Soybean Oil	1,596.22	235.19	218.47%	58.00%	6,826.44	1,005.83	129.52%
Total	5,860.03	863.43	219.22%	37.39%	35,299.83	5,201.17	151.24%

Source: Dalian Commodity Exchange

Open interest at the end of September was up by just under 3 percent across the nine categories. However, open interest at the end of September was up by nearly 85 percent from a year ago with a total of nearly 6.2 million lots. The leading categories were soymeal and corn with 2.3 million and 2.0 million lots, respectively. The bullishness for both corn and soymeal in the futures markets reflects the outlook for continued feed demand growth based on the optimistic outlook for a full recovery in China's hog sector in the coming year.

Open Interest End of September, Futures Contracts (Lots)

Commodity Contract	Open Interest (EOM)	Change (YoY)	Change (MoM)
Corn	2,049,563	141.23%	20.40%
Cornstarch	167,864	23.44%	47.98%
Egg	234,734	47.00%	-53.32%
Round Grain Rice	32,648	119.94%	-1.28%
RBD Palm Olein	436,450	50.96%	-8.93%
No. 1 Soybeans	133,544	-7.03%	-7.12%
No. 2 Soybeans	42,099	7.32%	-19.17%
Soybean Meal	2,314,195	84.86%	3.44%
Soybean Oil	756,284	65.45%	4.26%
Total	6,167,381	84.59%	2.97%

Source: Dalian Commodity Exchange

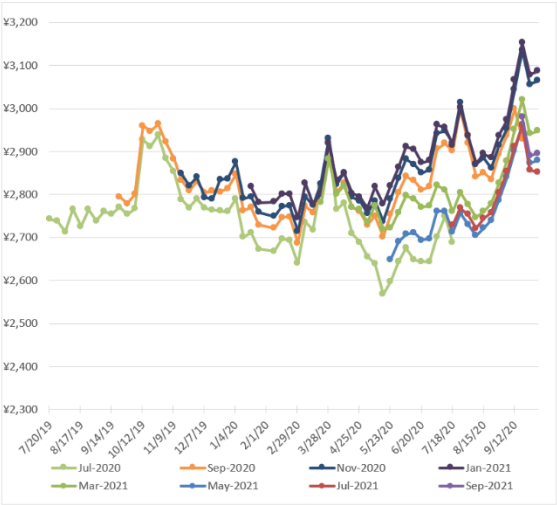
Soymeal Futures

Soymeal Futures Hit Yearly Highs Third Week of September

A steady rise in August and early September was supported with back-to-back weeks of triple digit gains in the second and third weeks of September. That resulted in the January 2021 contract ending the week of 19 September at RMB 3,153/MT ($466.42). That marked the first time since the beginning of December 2018, that the January soymeal futures contract had ended the week above the RMB 3,000/MT ($443.79/MT). Farther ahead in the calendar year, the May 2021 contract closed the week on 19 September at RMB 2,954/MT ($436.98/MT).

These two leading soymeal futures closed out September ticking down by RMB 55/MT ($8.09/MT) and RMB 81/MT ($11.91/MT) to RMB 3,078/MT ($453.09/MT) and RMB 2,871/MT ($422.21/MT), respectively. Last week saw a modest recovery as the two contracts closed up by RMB 6/MT ($.88/MT) and RMB 8/MT ($1.18/MT) from the previous week's settled prices to RMB 3,087/MT ($454.64/MT) and RMB 2,879 ($424.01/MT), respectively.

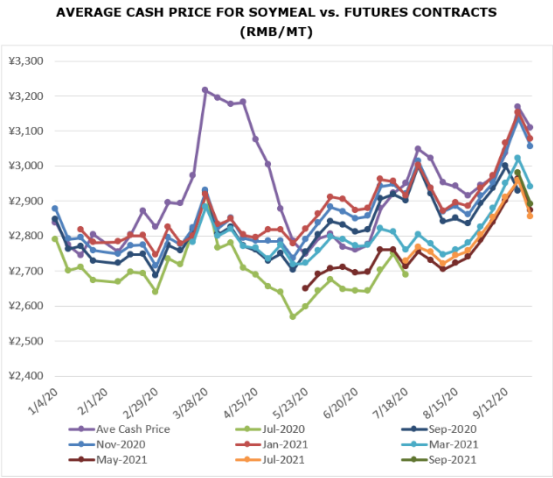
WEEKLY CLOSING PRICES, LEADING SOYMEAL FUTURES CONTRACTS (RMB/MT)



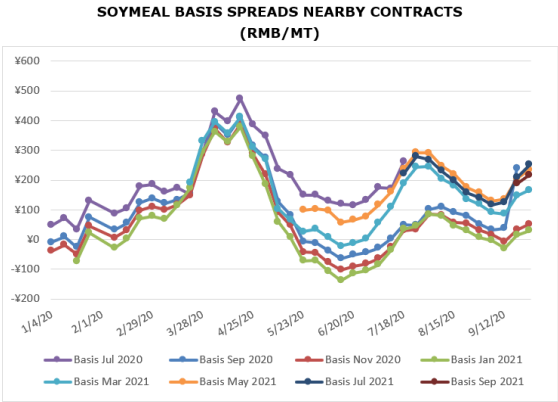
Source: Dalian Commodity Exchange

The steady climb of soymeal futures prices has closed the gap with the cash market and resulted in them moving in a more lockstep fashion. Basis spreads in September for the nearby November 2020 and January 2021 contracts were relatively narrow for most of the month and then began to widen by the last week of the month. At the halfway point of the month, the basis on the January 2021 contract fell to a two-month low of a negative RMB 29/MT (-$4.26/MT). As of the last week of month, the basis for January has reversed course and risen to RMB 30/MT ($4.41/MT). In contrast, the basis for May has

risen quite sharply. Midway through September it stood at RMB 130/MT ($19.12/MT). It closed out September up RMB 105/MT ($15.44/MT) to RMB 235/MT ($34.56/MT).



Source: Dalian Commodity Exchange



Source: Dalian Commodity Exchange

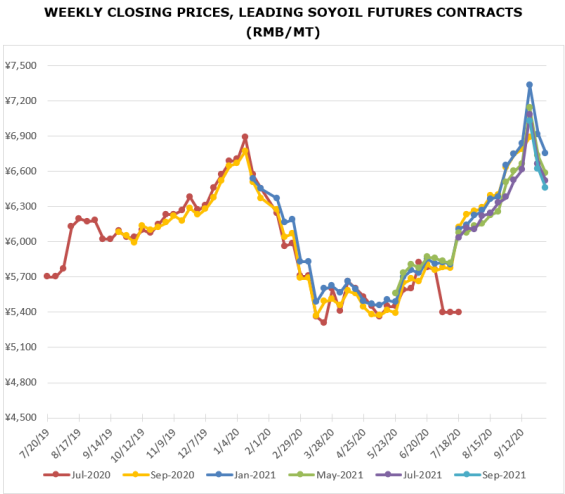
Soyoil Futures

Soyoil Futures See Surge Then Correction

Soyoil futures, in contrast to soymeal, saw some big upticks in July and August and then halfway through September had a banner week. Since the week ending 19 September, they have seen two weeks of sharp decreases. Over that time, the January 2021 contract went from closing at a record high of RMB 7,330/MT ($1,077.94/MT) on 19 September, a weekly jump of RMB 556/MT ($81.76/MT), to close at RMB 6,752/MT ($992.94/MT) last week. That equates to a decrease of RMB 534/MT (78.53/MT) from that new all-time mark.

During that period, the May 2021 contract went from a historic peak of RMB 7,140/MT ($1,050.00/MT) on 19 September to RMB 6,582/MT ($967.94/MT) last week. That translates into a two-week decrease of RMB 528/MT ($77.65/MT).

As will be seen with the rising basis spreads, the demand for soyoil has been driven in part by China's economic recovery post lockdown. However, there clearly is some speculation driving the market and likely some hoarding by producers betting on a big return in MY 2020/2021.

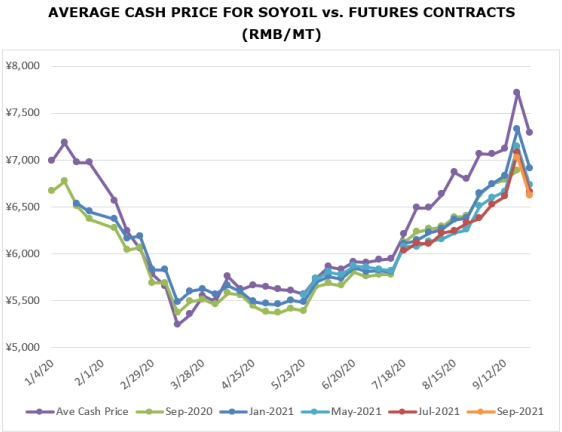


Source: Dalian Commodity Exchange

In mid-August, basis with the January 2021 contract stood at RMB 504/MT ($72.62/MT. It then retreated to RMB 285/MT ($41.91/MT) by mid-September. It ended September up RMB 87/MT ($12.79/MT) to RMB 372/MT ($54.71/MT). Basis for May 2021 has followed a similar pattern, but the spread with the January 2021 contract has expanded. At mid-August, basis for May 2021 was at RMB 642/MT ($92.51/MT), and then it retreated to RMB 453/MT ($66.62/MT). As of the end of September basis for May 2021 amounted to RMB 556/MT ($81.76/MT), a difference of RMB 184/MT ($27.06/MT) with the basis for January 2021.

These figures are historic, and it remains to be seen if the market is overbought. With the global economy in a fragile state, any uptick in COVID-

19 or prolonged recession globally could leave some speculators holding the bag.



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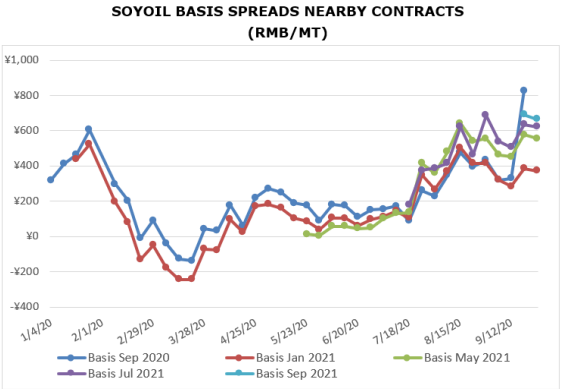
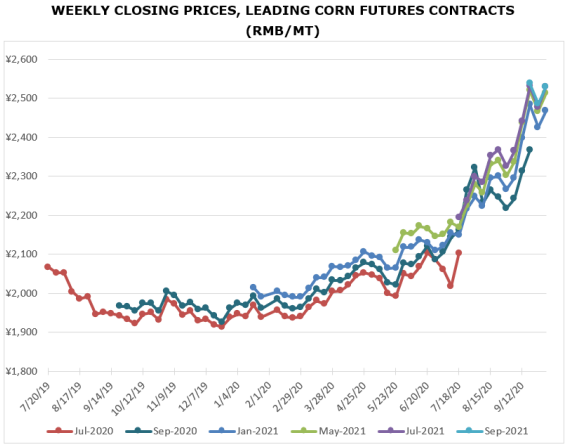


Source: Dalian Commodity Exchange

Corn Futures

Corn Futures August and September Surge Reflect Shortages

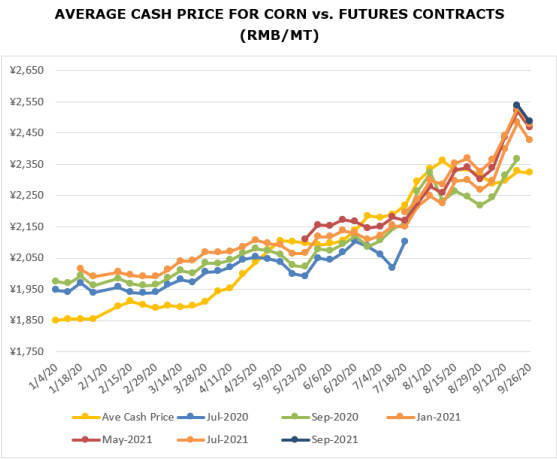
China's short corn crop and the end of its auctioning of 2014 and 2015 state reserves in September drove the futures and cash markets. In fact, the trading activity has not only impacted the traditional high-volume contracts of January, May, and September, but volumes for November and July have also steadily increased. The January 2021 contract closed out September at RMB 2,428/MT ($359.17/MT), down RMB 30/MT ($4.44/MT). By comparison, the May 2021 contract ended the last week full of the month at RMB 2,468/MT ($365.09/MT), a decrease of RMB 26/MT ($3.85/MT) from the previous week's settled price. This marked the first week of declines after three straight weeks of increases. Through last week, the January 2021 and May 2021 contracts had recovered to RMB 2,468/MT ($362.94/MT) and RMB 2,513/MT ($369.56/MT), an uptick of RMB 42/MT ($6.18/MT) and RMB 46/MT ($6.76/MT), respectively.



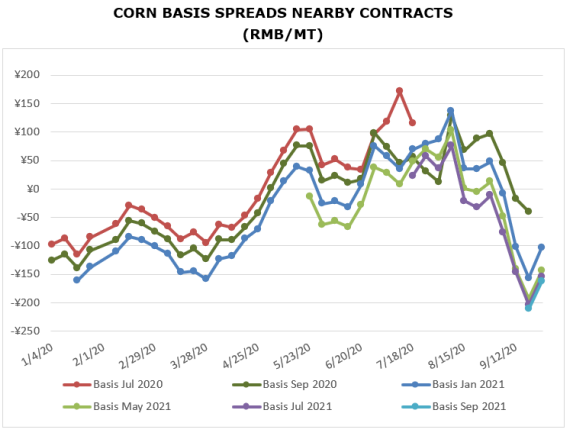
Source: Dalian Commodity Exchange

The spread between futures contracts and the national average cash price has resulted in basis falling into negative territory in September. At the end of August, the basis for January 2021 stood at RMB 48/MT ($7.05/MT), while for May basis was at RMB 13/MT ($1.91/MT). Through the week ending 19 September, the basis for January 2021 had fallen to a negative RMB 157/MT (-$23.09/MT), while the basis for May dropped to a negative RMB 193/MT (-$28.34/MT). By the end of the last full week of September, the basis for January 2021 had improved to a negative RMB 103/MT (-$15.24/MT), while for May 2021 basis has increased to a negative RMB 144/MT (-$21.30/MT).

With basis in negative territory, China's corn farmers are likely to hold back the current crop and let imports fill the gap in the short run to allow the cash market to close the gap with futures prices.



Source: Dalian Commodity Exchange



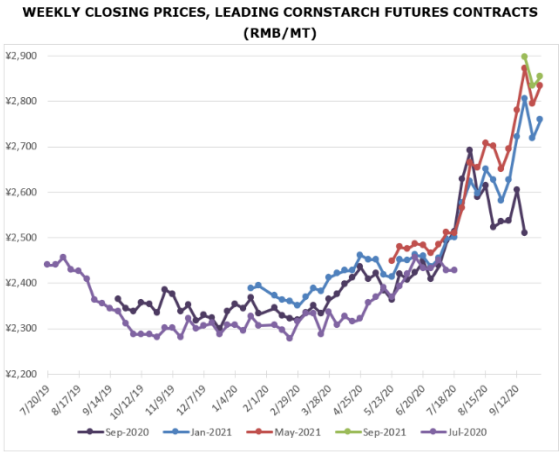
Source: Dalian Commodity Exchange

Cornstarch Futures Have Taken Off on Supply Concerns

From mid-August through the first week of October, cornstarch futures have seen their best run in several years. The expected shortage of new corn has made its presence felt in the cornstarch market. The leading contract, January 2021, ended the last week of September at RMB 2,719/MT ($402.22/MT), an increase of RMB 154/MT ($22.78/MT) since the settled price at the end of August. Similarly, the May 2021 contract closed out September at RMB 2,794/MT ($413.31/MT), up RMB 154/MT ($22.78/MT) over the same period. As with corn, until the last week of September cornstarch futures had seen three straight weeks of gains.

The modest decline in the last week of September was offset last week by solid gains. The January 2021 contract closed up RMB 37/MT ($5.44/MT) from the previous week's settled price. By comparison, the May 2021 contract improved by 39/MT ($5.74/MT) last week.

It remains to be seen if this is a new normal or the function of cheap money pursuing yield in the middle of the worst global economic crisis since housing crash of 2008. The one difference is that the housing market found a bottom. With the pandemic and its resurgence this fall, coupled with fragmented global and even more questionable governance from the world's superpowers, commodities markets find themselves in uncharted territory. Thus, asset bubbles are likely to appear in the near future.



Source: Dalian Commodity Exchange

Mercosur Regional Analysis 19 October 2020

By WPI Staff

Market Overview

It has been a hard week for the Argentina grain markets. The macroeconomic situation is becoming more complicated every day and hurting businesses.

The exchange rate spread (official versus black market) is trading above 125 percent and there is also a big spread (close to 100 percent) against financial dollars. The measures the government took to avoid more losses in central bank dollars are worsening the situation. Right now, Argentine companies have very limited/no access to U.S. dollars, and imports are nearly prohibited, as is moving money out of Argentina.

Despite the government doing its upmost to avoid it, it seems the only way out is with a large currency devaluation. Such action now seems inevitable, even though it will exacerbate inflation (and maybe trigger hyperinflation), and likely increase the poverty rate (which is now close to 50 percent).

Under this scenario, farmers receive payment for their goods in Argentina pesos at an exchange rate of 80 ARS/USD. Knowing that the real exchange rate should be much higher (the black market rate is somewhere near 140-150 ARS/USD) and that a devaluation is inevitable, they have no motivation to sell more than what they need to afford payments.

To add further injury, the weather is complicating wheat crop development and causing production forecasts to fall sharply. Moreover, the weather is delaying corn planting and affecting the development of what has already been planted. The past few days have been dry, windy, and hot, which has increased soil moisture losses. Some rains are forecast for this week and hopefully they will be abundant and widespread.

Corn

Last week ended with an unclear and chaotic FOB market. Prices rallied in both the FAS and FOB markets throughout the week. In the FAS market, exporters paid as much as $190/MT, which equates to 160z FOB equivalent. It was only a short time ago such prices were nearly unimaginable. High prices, however, are the only tool exporters have right now to encourage farmers to sell.

Last week started with sellers at 135Z for October and 145Z for November with bids 10 cents lower. Presently, there are no sellers in the Argentine corn market, with a few shy ideas at 165-170Z FOB, but bids far below. Argentina's market is following the bullish Brazilian market that has already run out of logistics for October and November. Brazilian offers for December positions are near 200Z FOB. With a tight supply/demand situation, Brazilian local prices are rallying sharply as well. The country will start importing corn for domestic consumption any time now. The government is considering a proposal to allow imports from non-Mercosur suppliers at a duty-free rate. Sources are saying such a move is already a certainty.

Offers for new crop corn FOB Argentina are nonexistent as farmer selling is small and only at high prices. There is a lot of demand in the markets and buyers are ready to pay huge premiums (100K for March and 90K for April/May). It seems exporters have decided to wait and see what rains come this week before moving in the FOB market. If the precipitation and coverage is good, they might start posting offers and making sales. If not, downside risk for the crop remains large and they will wait to advance sales.

Wheat

Most estimates of Argentina's wheat crop are near 17 MMT in the best-case scenario. If the weather does not improve until harvest, production estimates will continue to fall. The last few weeks have featured drought and frosts while last week saw hot temperatures and continued dryness. If this situation continues, the export surplus will be near 10 MMT. This means exporters have already purchased half their needs.

Farmers have already sold 30 percent of the crop and are waiting to see how weather and yields develop before selling more. Exporters are pushing to get FAS volume as they see a lot of demand on the FOB market and the international supply/demand situation is increasingly complicated. Last week, they paid as much as $210/MT FAS, which is about $250/MT FOB equivalent. Demand for Argentine wheat is coming from Brazilian millers (as usual), Africa, and Asia for different qualities. On the FOB market, one trade was performed at $239.50/MT for January shipment of 11.5 percent protein wheat. This is at least $10 higher than what traded at the beginning of last week.

Soybeans

Last week was volatile again, with strong demand from China and non-China buyers that still need to buy December positions. Brazil is out of the picture for 2020, so the only available soybeans

are from the U.S. and a small volume from Canada.

The problem is that U.S. exporters have very limited elevation capacity. The big sales of soybeans and corn for 2020 positions have used almost all the elevation capacity. Therefore, many buyers have been forced to cover at the last minute, paying high basis levels. Private crushers from China were caught short as well since China's state-owned companies were the primary buyers of U.S. soybeans at the beginning of the marketing year.

Brazil

The problem is getting tougher now with delayed seeding in Brazil. Buyers were counting on Brazilian shipments in January and early February, but the delayed planting suggests there may be almost no January exports from Brazil, and smaller February shipments.

Rains fell over the weekend with pretty good coverage in the center and south of Brazil, though northern Brazil is still dry. Weather analysts are confident rains should start to come more regularly now, although everybody is nervous and in "wait and see" mode. In fact, rains should have started in the second half of September and were delayed.

Traders generally believe that Brazil will be able to export 6-6.5 MMT in February. This is a large volume as last year Brazil exported 6.6 MMT in February, which was a record high number for the month. Although acreage has increased this year, it seems early shipments should be smaller as there´s no carryout from the past campaign and delayed early seedings. The coming couple weeks will be critical for enabling a timely harvest.

While October/November weather is critical for planting/establishing the soybean crop, February weather is equally important, though in a different way. February requires favorable weather for harvest and no rains at ports to allow a proper loading to the vessels. There have been past campaigns with a lot of rain in February that delayed harvest, transport, and elevation of soybean crop. Those delays create export delays, huge vessel line-ups and inverted basis levels. Only time will tell what the coming campaign will be like, but it's a less than ideal start.

There was news over the weekend that Brazil will reduce import duties on soymeal and soyoil. This should not affect the soybean imports, in WPI's view as Brazil is not prepared to import soybeans. Crushing plants are not near ports, so imported soybeans must travel inland to reach the plants, making this trade uncompetitive.

Only Rio Grande can crush soybeans at the port. Rio Grande has already received three vessels from Uruguay, where there are no import duties due to the Mercosur Free Trade agreement. Paraguay has also exported soybeans by truck to the Brazilian crushing plants close to the Paraguayan border under the Mercosur agreement. While imports have started, volumes have been small.

Soymeal should have a similar situation to soybeans. Soyoil imports might see some notable volumes, though Argentina has already been supplying soyoil to Brazil. Argentina might have some competition now from abroad, but so far volumes seem not very relevant. Presently, WPI does not expect substantial changes to the supply/demand balance sheet due to the reduced tariffs.

Brazilian soybean vessel lineups at the ports are dropping quickly. Two months ago, the lineup was 5.5 MMT, a month ago was 2.7 MMT and last Friday it was 1.5 MMT. This shows how quickly Brazilian soybean exports are dropping due to the strong internal market. As for new crop, there was strong demand last week from China and non-China destinations. February traded at 225H, March at 176H, April at 158K, May at 162K, June 166N and July 173N, all CNF North China.

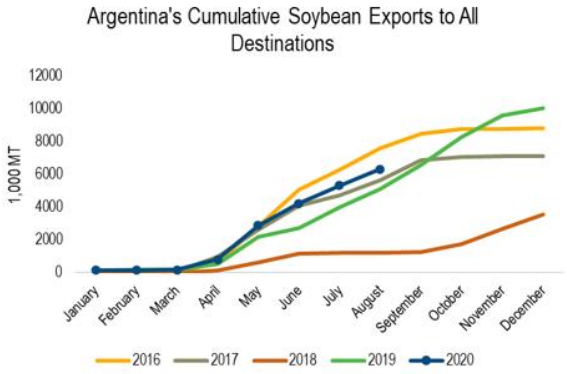
There was good activity on all positions in the CNF market, though the FOB market was quiet. Farmer selling has reached 52 percent for the 2021 campaign (no big changes there) and 6 percent for the 2022 campaign. Farmers are waiting to seed soybeans before making additional sales.

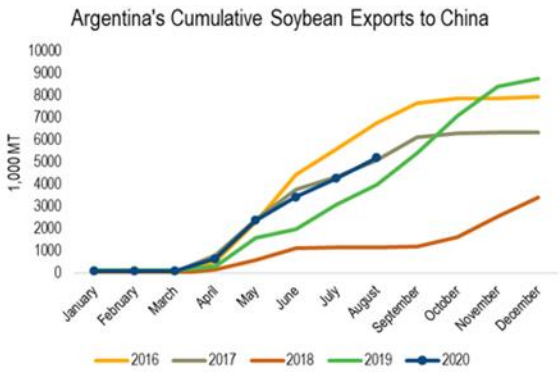
Argentina

Argentina's soybean market remains quiet. Some rains came last week, especially in the northern half of Argentina, which was is the region most affected by the drought. While winter crops are already damaged and yields will be very low, summer crops (soybeans/corn) are still in line to be seeded on time and produce a normal crop.

Although the recent rains were beneficial, Argentina needs still needs a good storm to refill soil moisture levels and enable a proper start to the crop year. For the moment, it seems that a La Niña weather event will occur, meaning a drier than normal year. That has the potential to create a big disruption for Argentine summer crop production.

Argentina has been reducing its soybean exports. The huge spread between the free unregulated dollar rate versus the official rate for exports is discouraging farmers from selling. Farmers are only selling what they need for expenses and are not investing or spending anything additional. This has reduced farm sales of soybeans, while crushing plants in Argentina are desperate to originate soybeans. Consequently, FOB soymeal basis has increased sharply, impacting the global soymeal supply/demand situation.





WPI POLICY ANALYSIS

Brazil's Corn and Soy Tariffs; Trade Facilitation

By Dave Juday

On Friday, 16 October, we commented on Brazil's livestock and poultry demand potential for DDGS co-produced by the growing trend of corn ethanol production in Brazil. Producers are discovering that DDGS are cheaper than soymeal and help with feeding margins.

That afternoon, the economy ministry of Brazil announced that due to high feed prices, it was suspending tariffs on non-Mercosur corn, soybeans, soymeal, and soyoil. Those commodities from the Mercosur block are tariff free, from outside the block they are subject to the following tariffs:

- Corn and soybeans – 8 percent tariff
- Soymeal – 6 percent tariff
- Soyoil – 10 percent tariff

Once in force, the import tariff waiver will apply to soybean and soy products until 15 January 2021, and for corn imports until 31 March 2021. In September, the Brazilian Animal Protein Association (ABPA), made up of pork and poultry producers, petitioned for the tariff waiver. The Economy Ministry was considering a waiver until June 2021, but under pressure from the Agriculture ministry, the period was shortened. Extensions of the waivers are a possibility, especially for corn.

Higher feed prices are cutting into margins in Brazil and pushing up domestic prices of pork and poultry, which is an economic problem especially as recovery from the COVID pandemic continues. With the depreciation of the Brazilian real, exports of pork and poultry are still competitive, but the domestic market is stuck with inflation. September inflation rates were the highest for the month since 2003. That year annual inflation was 9.3 percent; for the year to date, inflation is trending at 2.4 percent, but the monthly rate in September would annualize to more than 7.6 percent. Two weeks ago, the Central Bank's Committee for Monetary Policy left the benchmark interest rate at its current 2 percent.

According to the USDA Foreign Agriculture Service (FAS) post in Brasilia, biotech regulations are a hurdle for imports of U.S. corn and soybeans to take advantage of the tariff waivers. There are at least nine biotech varieties of both corn and soybeans approved in the U.S. that are not approved in Brazil. To import corn or soybeans, the importer would be required to submit an approval request to the regulatory authorities on a case by case basis. The regulatory body has only two scheduled review meetings left in 2020.

Additionally, there are logistical issues, including the port capacity to receive imports. There is not an obvious option in Brazil like the Port of Wilmington, NC has been in the U.S. for importing corn.

In further bilateral trade news, the U.S. and Brazil have reportedly reached a trade facilitation deal. Though it does not appear to cover agriculture, it does set the stage for a future FTA. Under the agreement the U.S. will back Brazil joining the Organization for Economic Co-operation and Development (OECD), additionally, the U.S. Export-Import Bank would back approximately $450 million in projects in Brazil, and the U.S. Development Finance Corp has about $1 billion in projects there.

Both President Bolsonaro and U.S. Secretary of State Mike Pompeo said the deal is spurred by

both countries' efforts to reduce economic dependence on China.

Post-Election Dynamics

By Gary Blumenthal

Odds are that Joe Biden becomes the next U.S. President, which prompts some understanding of its implications for the agriculture sector.

Trade: The change in the chief executive will have less impact on the trade policy agenda than foreign governments would like to assume. Mr. Trump adopted the trade skepticism previously owned solely by the Democrats. Mr. Biden says he will work more collaboratively with other countries, but that approach during the Obama era did not prevent his supporters from voting for Mr. Trump's "America First" approach in 2016. Moreover, nationalism is now heightened around the world.

An article in liberal publication *The Fern* asks the question, "Are Democrats missing a fundamental issue for rural voters?" It finds voters disagree with Mr. Biden's characterization of President Trump's trade war as an "unmitigated tariff disaster." The article also notes that the Democratic nominee's platform discusses strengthening antitrust enforcement in agriculture, but so did the Obama/Biden platform in 2008 and that went nowhere.

Regulation: The scariest change to those in agriculture is a shift back toward heavier regulation. This includes everything like wetlands delineation, pesticide approvals, air particulate matter restrictions, limiting grazing permits, imposing on land rights, taxing inheritance, the Green New Deal, etc.

Economic Dynamics: There are fundamentals at play that neither contender for the Oval Office can stop. Agriculture is a relatively inefficient industry, with excess labor, inadequate scale, and slow innovation. Competitors in South America and the Black Sea will continue expanding at the expense of the U.S. and Europe. Some policies can help either by speeding innovation or easing competitive impacts, but the dynamic cannot be stopped. Even policies designed to help are not perceived in that manner. Rep. Collin Peterson (D-Minnesota) says that dairies of fewer than 220 cows "cannot lose money" if they use the safety net program he wrote as Chairman of the House Agriculture Committee. Yet, critics charge that dairy farms in Wisconsin are shutting down at a rate of nearly two per day and farmer suicides are on the rise

Goose and the Gander; EU Green

By Gary Blumenthal

Goose and the Gander

President Donald Trump says he wants to make the U.S. a manufacturing powerhouse no longer dependent on China. Those in agriculture have heard this paean for decades by governments around the world. The goal of food self-sufficiency remains elusive for many but not for lack of trying via heavy subsidies. The result in food has been distorted markets, with over-production in some areas and food insecurity in others. Agriculture may be different from manufacturing from the standpoint food is a necessity and weather is a larger influence, the fundamentals of business remain the same.

Separately, China objected at the WTO to Mr. Trump requiring products from Hong Kong to be labeled made in China. The politics of both sides aside, the implication is that the "China" label must have lower marketing quality than "Hong Kong." The truth is that even before the Security Law and squashing of democratic dissent, most consumers in the west thought of products from Hong Kong and China as synonymous.

EU Green Leakage

U.S. agriculture remains keenly focused on developments in Europe's environmental policies, foreseeing a protectionist impact in the future. On the issue of methane emissions, the EU has taken a less stringent route. Instead of regulating first, the EU will seek international cooperation on measuring emissions and eventually the joint objective to cut them by one-third. The approach to pesticides may be more restrictive. The laudable goal is to ensure that pesticides are produced and used more

sustainably, but the question is are they measurably unstainable at present.

There is an ideological objection to them, with opponents citing EFSA data that residues from more than one pesticide are found on one-third of all foods. However, glossed over is an EFSA safety conclusion that they are unlikely to pose a concern for human health. Putting too much of anything into the environment is not good, but objective measurements of good and harm are a prerequisite.


WORLD PERSPECTIVES
AT THE NEXUS OF POLICY & MARKETS