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Kazakhstan: The Next Cattle Ranching Frontier?

SSA Commodity Opportunity

Do Oil & Ethanol Finally Agree on Something?

Clash of the Titans

WORLD PERSPECTIVES: AG REVIEW

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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.

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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.*
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- *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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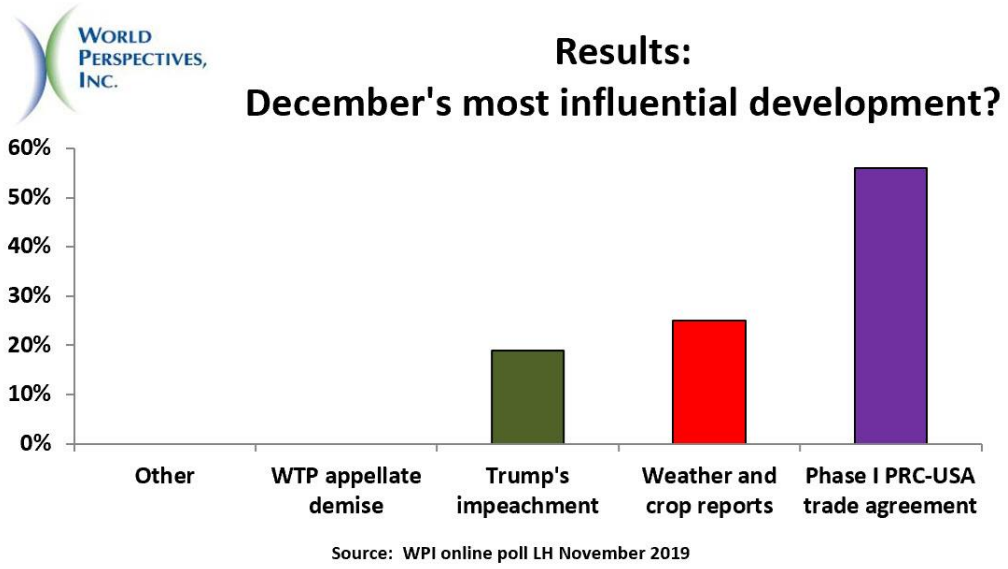
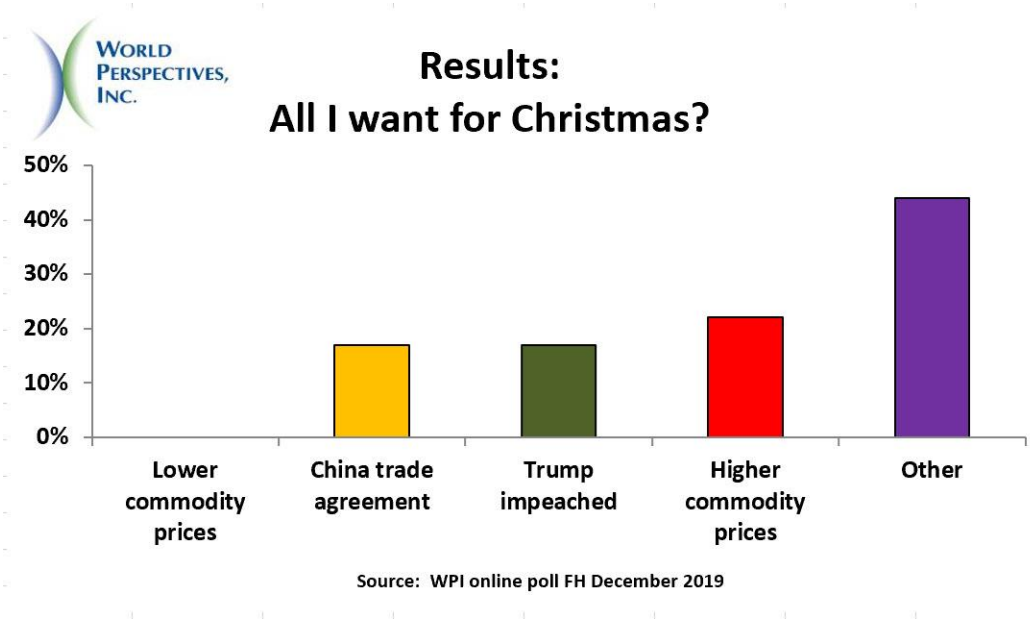
WPI POLLING

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





FROM THE WPI TEAM

By Gary Blumenthal

If you are reading this edition of *Ag Review* and you're in agriculture, then we share notable traits such as resilience, adaptability and focus. It has been one of the most tumultuous years in the history of the business and now finally, looking forward, there are signs to make us hopeful.

> "It is not the strongest of the species that survives, not the most intelligent, but the one most responsive to change." Charles Darwin 1809

If we look at the topics that WPI wrote about in 2019 and were most consumed by our clients, it reflects the issues that were most disruptive to the industry.

The year started with a U.S. government shutdown and uncertainty over what federal functions would still be available to the industry. The trade war was just getting heated up, and the political fighting in Washington was irritatingly simmering.

One editor complained that our analysis was China, China, China – but who could ignore the 800-pound gorilla in the marketplace? We went to meetings in Washington and aptly warned that the trade war would worsen before it would get better. We analyzed globally, such as "Drowning Transatlantic" pessimism, the "USMCA Optimism," Argentine export taxes and the bilateral currents around a U.S. – Japan trade agreement.

The market itself can be befuddling and our analysts trudged through the data looking for patterns we could helpfully dissect. Make no mistake, our market commentary on daily commodity price influences remains the number one read topic in our entire analytical quiver. But we also diligently opined on the disrupters, like meat alternatives, ASF, Fall Army Worm and ESG criteria (environmental, social and justice).

By the end of the year. we were talking about the market's hopeful moves upward, about biofuel mandates colliding with palm oil shortages, and the many uncertainties that lie ahead in 2020.

This past year has been far from easy, but in agriculture we are optimists and so the Pollyannaish conclusion is that it has not been boring.

For you and us, we hope for a 2020 that is more interesting than 2019 because it is profitable!

Here's to adaptability.

Finally, in 2019 we added the thrice daily report, Technical Perspectives. Fundamentals tell us where we are going and technicals tells us how we get there. We hope you are enjoying its insights into the algorithms that increasingly explain near-term price changes, and more broadly our lives.

WPI MARKET ANALYSIS

Trade War Trade Impacts

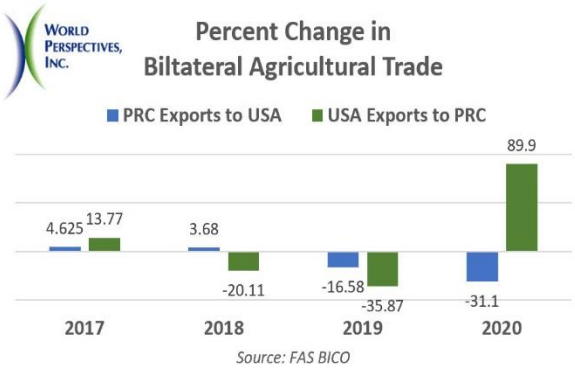
By Gary Blumenthal

The U.S. – China trade war has had a far more dramatic impact on American agriculture than it has had on farmers in the Middle Kingdom. In fiscal year 2017, the U.S. had a $16 billion agricultural trade surplus with China.

In percentage terms, U.S. food sales to China that year were 142 percent greater than PRC agricultural sales to America. By 2019, that advantage had shrunk to just $3.5 billion. U.S. food sales to China slipped by $8 billion in fiscal year 2019, the Middle Kingdom managed to use the trade war to boost its food sales to the States by nearly $500 million.

However, just as the U.S. has had more to lose in a trade war with its largest customer, it has more to gain from the normalization of trade relations. China is waving tariffs on U.S.-sourced pork and soybeans and spent December buying American soybeans for delivery in January and February. Indeed, despite the trade war, U.S. agricultural exports to China at the start of fiscal 2020 are up by 90 percent.

In addition to sales of pork and soybeans and despite sometimes punitive tariffs, U.S. sales to China are increasing for tree nuts, ethanol, plus hay and eggs. Meanwhile, China is selling more beer and wine to the States. Both sides have much to gain from a conclusion to hostilities, but especially U.S. agriculture.



Kazakhstan: The Next Cattle Ranching Frontier?

By Dave Juday

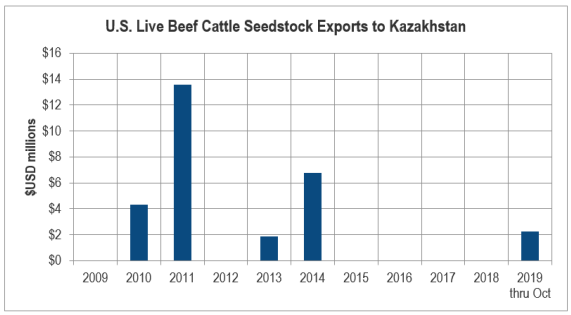
While most of the trade news has been focused on the USMCA and China, there's another tidbit that shows the increasing influence of the east on the future of beef demand.

Situated between Russia and China, and across the Caspian Sea from the Middle East, Kazakhstan has been generating a lot of attention as a potential beef producer. This month, Tyson Foods announced plans to build a 2,000 head per day beef packing plant there to target supplying China, the Middle East and the rest of Asia. Tyson CEO Noel White has been quoted in the press as saying the project "is to help satisfy the growth in demand that we see over the course of the next 10-plus years."

The U.S. company has joined the party that started last year with investments in Kazakhstan by Cedar Meats of Australia, Dunbia of Ireland, and Inalca of Italy after the Kazakhstan government – with the Meat Union of Kazakhstan – announced a revised policy for the subsidization of the livestock industry. The policy is designed to double beef (and lamb) production by 2027, mainly to develop export sales to China and the Middle East. Meanwhile, the country has been negotiating a beef export

protocol with China after exporting about 19,000 MT of beef in 2018, nearly four times the amount it sold to China in 2017.

Kazakhstan must build its beef herd to keep pace and to meet its goals, which it has been attempting to do off and on for about 10 years – though mostly off. It has followed in the shadow of Russia's efforts to improve genetics through imports and has come back into the breeding market this year, buying Angus and Simmental cattle from Bryansk, Russia (no doubt with U.S. Angus in the pedigree given Miratorg's expansion in Bryansk) as well as additional seedstock cattle from the U.S.. Kazakhstan's long-term goal is to import enough genetics for a brood stock herd of 1 million head.



Source: USDA, WPI

The new government support program is different from past subsidy programs. Instead of focusing on per head and per acre subsidies, the new plan provides low interest (4 percent this year) on 15-year loans, plus provides subsidies for developing water sources, and for importing pedigree cattle seedstock. The financing will be supported by the Asian Development Bank (ADB).

The program has the goal of four new feedlots, feeding 20,000 head per year and is targeted to support smaller scale farms of 100-200 head of cattle with the objective of expanding cattle and sheep farms from the current level of about 20,000 head on 58 million hectares to 100,000 farms and ranches on 100 million hectares by 2027. The objective is to develop producer co-ops rather than integrated production operations.

Kazakhstan uses only 30 percent of its 110 million hectares and the plan is to expand the footprint of agriculture, which generates 67 percent of the country's GDP. The program lays out plans for animal identification and traceability, and even access to market insurance for cattle.

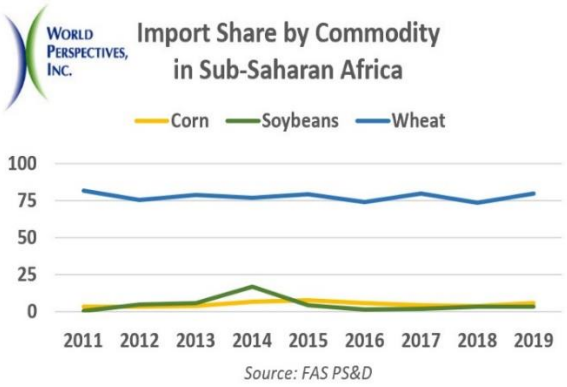
The effort has its challenges with water resources an issue. USDA will collaborate with Kazakhstan and ADB in conducting feasibility studies and other research on watershed and rangeland management, and veterinary to be upgraded to accommodate the targeted exports under the program.

SSA Commodity Opportunity

By Gary Blumenthal

Europe has traditionally taken a stronger interest in its former colonies in Sub-Saharan Africa, with China becoming aggressively involved in recent years. The U.S. has limited its view to that of foreign aid assistance, even though its own population includes the largest number of educated descendants from the African Continent. The U.S. is supposedly taking a keener interest in the region for actual business and trade development. If so, it will not find tremendous immediate opportunities for its major commodities.

Despite more rapid income and population growth, the import share of consumption for grains is relatively static. African governments remain focused on domestic production of maize. Wheat is agronomically more difficult for the region, thus the relatively high import dependence. However, soybean consumption has been growing at 9 percent per annum.



WPI INTERNATIONAL ANALYSIS

Mercosur Regional Analysis - 16 December 2019

By WPI Staff

Argentina's new government took office last week and both Argentine bonds and equity prices have rebounded and the peso has firmed. The new government is planning on passing through congress an economic, food and sanitary emergency act that will give the president power to increase taxes by decree. It seems the (somewhat obvious) goal is to increase the export taxes on agricultural, mining, and oil products to obtain (according to government calculations) about $2 billion annually. Export taxes are the only way for the new government to raise revenues without printing money (as the new administration has stated they will avoid), given the small central bank reserves and no access to international credit.

As published in the official bulletin, the government has, by decree, eliminated the export tax limit of ARS 4 per exported U.S. dollar. With this, soybeans will start paying a 30 percent tax and grains 12 percent. Some analysts have already run production margins with these taxes, and many will be zero or near zero.

Moreover, the government has imposed legislation doubling the compensation for firing employees, and repealed a law restricting hiring of family members for public administration roles, a 30 percent tax for credit card purchases made in U.S. dollar (the so-called "tourist exchange rate"). For sure, many more measures will be enacted, all of which will work against production, investment and employment.

Wheat

Due to drought and high temperatures, the crop is already finishing the grain filling stage, and most is ready for harvest. This has allowed the weekly harvest to advance 15 percent last week to a total of 61 percent. The Buenos Aires Grain Exchange estimates an 18.5-MMT crop while the Rosario Grain Exchange estimates 19.5 MMT (up 0.5 MMT form last week's estimate). The unharvested crop must be closely monitored, however, as 70 percent is rated as having regular bad soil moisture conditions.

The flow of trucks to ports is still above 2,5000/day and has been consistent since the harvest began. During November, more than 1.6 MMT were discharged at ports and 1.3 MMT during the first half of December. These are very good volumes compared to the 800,000 MT loaded in November and the 1.4 MMT actual line up.

December export declarations total 3.65 MMT which, if filled, would be an all-time high, slightly above the 3.35 MMT hit in December 2018. With the current flow of trucks and vessels in the lineup, that volume is entirely reachable. Ports in the south are receiving 700-800 trucks/day as harvest near those ports is starting earlier than normal.

FAS prices have experienced modest changes and the $5/MT spread from spot (prompt discharge) and full December is allowing those who have space to take advantage of the slight harvest pressure and boost export margins. One market oddity, given the current political situation, is that 25 percent of farmer sales have been made under "price to be fixed" contracts. If the export taxes are enacted, cash prices will start coming down.

FOB prices are mostly unchanged ($198, $200, and $205/MT for January, February, and March, respectively). Brazilian millers have already covered their December needs and most of January but are still looking for February and March.

As noted earlier, the demand for Argentine wheat is coming from a range of destinations, but it seems Brazil (which is purchasing 400-500,000 MT/month) and Asia (Indonesia, mainly) are the biggest buyers. Asian buyers have been active since the beginning of harvest, buying panamax vessels, buying upriver with completion in the South. The last trades heard for full panamax vessels were $205/MT. There is some increasing demand for completions in the south, as many Asian consumers have already purchased the upriver portion and are needed to complete the vessels. Others will combine corn and soymeal upriver and complete the vessel with wheat in the south.

Corn

Weekly planting progress was 6 percent last week, bringing the total to 54.7 percent. There is some better-than-expected progress created by last week's rains. However, the rains were not enough and hot temperatures across most of the country dried soils too fast. At the end of last week, some unexpected rains fell and lowered temperatures, and there should be better planting progress now.

Thanks to last week's rains, nearly 90 percent of the crop is rated normal/excellent with 35 percent having normal soil moisture. With the usual high temperatures, more rains are needed soon for the development of the late planted crop and flowering of the early planted crop.

The biggest market news is Brazil's purchase of 200,000 MT of Argentine corn for delivery beginning in 2020. This is something that occurs almost every year at this time, when Brazil is running out of corn and consumers pay high prices to pick it up in the middle of Brazil. Logistics are cheaper to ship in Argentine corn rather than truck it 2,000 km inland across Brazil.

Despite Brazil's purchases, Argentine markets didn't reach much, January shipments are still offered at 55H and February at 60H. There is some demand, most of which is short covering and not ready to pay these premiums.

A small volume was originated in the local market for new crop corn last week, though exporters are overall showing little interest and reducing offered $7/MT from the prior week. Farmers have already sold substantial volumes and these prices will not encourage additional sales, despite the effects of higher export taxes. Because farmers are paid in Argentine pesos and cannot buy U.S. dollars, it seems a better idea to earn money/interest by holding grain than being subject to Argentina's 50 percent annual inflation. Also, with the crop not coming in as expected, farmers are unsure of how much will be harvested, and therefore reluctant to extend forward sales.

The FOB market ended last week with little movement, though buyers are getting closer to the offer side. There is some small demand coming from end users for upriver positions, but trading houses don't think premiums of 35-40K are attractive at which to go long. The focus is still on the panamax market where bids and offers are close and something will surely trade for March/April/May. At the end of last week, a few panamax traded at 10N for July shipment, but the trade was between trading houses and not "real" demand.

Soybeans

Market Overview

The market was nervous all last week due to rumors and announcements of a U.S.-China phase one trade deal. There were many tweets and informal rumors from the U.S. confirming that a phase one deal was already agreed to, though Chinese officials did not confirm. The Chinese were cautious about confirming a deal, and never committed to buying a specific volume of soybeans, just whatever they would need at competitive levels. This means eliminating the import tariffs on U.S. soybeans but only buying from the U.S. when the origin is competitive against South America.

If the import tariffs are eliminated and no other terms are agreed to, the U.S. will only be able to ship to China through January from the U.S. Gulf and possibly into February from the PNW. Through February, China will not be able to secure soybeans from Brazil since a huge volume (1.5 MMT) is already committed to non-China destinations.

Argentina

Soybean export taxes were raised form 24.7 percent to 30 percent, while corn and wheat taxes went from 6.7 percent to 12. Additionally, milk taxes were raised from 5 to 9 percent, with similar changes on other products.

Soymeal and soyoil duties were also increased to 30 percent, a change from the previous (through September 2018, at least) 3 percent benefit the soy products had over soybeans. This change eliminates the advantage held by the soy crush industry. Former President Marci eliminated that benefit, and reduced the crush margin by to roughly $9/MT. This reduction hit the crushing industry hard, and many firms had poor margins this past year and suffered large financial losses. This is one of the reasons that pushed the largest crusher in Argentine to stop payments and get close to filing for bankruptcy.

Farmers anticipated the possible export tax increase and sold up to 80 percent of the soybeans from the current campaign and 11 percent of the expected new crop production.

Changes in Argentina Export Taxes						
	Jan-18	Aug-18	Sep-18	Dec-19	Dec-19 (as from 12/12)	Change
Soybeans	29.5%	26.0%	28.8%	24.7%	30.0%	5.3%
Maize	0.0%	0.0%	10.8%	6.7%	12.0%	5.3%
Wheat	0.0%	0.0%	10.8%	6.7%	12.0%	5.3%
Sorghum	0.0%	0.0%	10.8%	6.7%	12.0%	5.3%
Sunflower seed	0.0%	0.0%	10.8%	6.7%	12.0%	5.3%
Barley	0.0%	0.0%	10.8%	6.7%	12.0%	5.3%
Soybean Meal	26.5%	23.0%	28.8%	24.7%	30.0%	5.3%
Soybean Oil	26.5%	23.0%	28.8%	24.7%	30.0%	5.3%
Soybean Pellets	26.5%	23.0%	28.8%	24.7%	30.0%	5.3%

Argentina's soybean planting reached 61 percent by last week with the lack of rain delaying planting for both the first and second crops. Planting of the first crop is about 14 percent behind last year while the second crop is 7 percent behind last year's pace.

Fortunately, there are rains forecast for Friday and meteorologists are forecasting a neutral El Nino/La Nina event for the summer, based on ocean temperatures. Therefore, it's still unclear whether Argentina will face a dry summer or not, although for the time being, drought is hitting the core agricultural area and is already lowering corn yields and is becoming a concern for soybeans.

Argentine Farmer Selling Rates				
	New Crop		Old Crop	
	in MT	% of crop	in MT	% of crop
	2018/2019 Campaign			
Soybeans	36	66%	28	78%
Corn	38	75%	22	70%
Wheat	15	79%	14	80%
	2019/2020 Campaign			
Soybeans	5.6	11%	1.1	2%
Corn	8.9	18%	3	6%
Wheat	7.1	39%	6.9	36%

Brazil

Brazil's market was slow last week as Chinese buyers were reluctant to move, despite good crush margins. Traders were waiting for more clarity on the trade war before making a move, but with confusion extending all week, the market remained at a standstill.

The markets are slow from the origination side as well. The Brazilian real was strong all week, compensating for the rising CBOT. So, farmers are holding still for the moment. Farmer selling is near 40 percent of the coming crop.

Crop conditions remain very good in Brazil and the delayed planting will not affect production. There may be some delay in the early harvested plots that will impact January shipments, however. Last year's harvest started before Christmas, but this year's campaign will not start until early January.

Uruguay

Fifty-eight percent of the expected soybean area is already planted, and Uruguay is facing a similar or worse drought than Argentina. Weather forecasts expect rains between 10-50 mm for next Friday. These rains will be critical and, if they miss Uruguay, the drought will turn terrible.

The market remains very quiet with no farmer sales as the drought has stopped all selling interest. The market is at a standstill until more is known about the fate of the crop.

Paraguay

Unlike Argentina and Uruguay, Paraguay has been receiving good rains and crops are in good condition. There is still some concern about January weather as hot/dry weather at the beginning of the year can quickly decimate crop conditions. Paraguay has very hot summers since the country is far from the ocean and has low elevations, leading to summer temperatures that can exceed 50 degrees C. These hot summer days, combined with drought, force soybean plants to dry up and leave unmatured beans. Generally, this has the effect of lowering yields and increasing the rate of green beans.

The harvest is expected to start around 15 February. Farmer selling has reached no more than 10 percent and there is still a 30-cent gap between bids/offers in the FOB market for Paraguayan soybeans.

Paraguay is still waiting for news about Argentina's temporary imports of Paraguayan soybeans as this will define how Argentine crushers participate in the Paraguayan market.

China In-Country Analysis
11 December 2019

By Yangjun Lu

Macroeconomics

November Food Inflation Hits Highest Level Since May 2008

Food prices for this past November surged by 19.1 percent compared with November 2018. Since last February, monthly food inflation has now risen for nine straight months and has surpassed double digits from August onward. The big story or driver has been pork. Retail prices, which are what is factored into China's Bureau of National Statistics calculations, jumped 110.2 percent in November compared with 101.3 percent in October. Other food items that experienced price upticks included edible oil, which was up 5 percent in November, driven by higher soybean oil prices. Similarly, prices for fresh vegetables were up 3.9 percent, while egg prices were up 10.1 percent.

To demonstrate how significant rising food costs have been on the household budgets of Chinese consumers, core inflation fell to 1.4 percent in November. At some point, these soaring prices will begin to impact consumption and purchasing. Retail month-on-month sales data lags further behind food inflation. Nonetheless, in October, retail sales were up just .46 percent from September, while year-on-year they rose by just 7.2 percent compared to 7.8 percent the previous month.

Livestock

Live Pig Price Up 9.5% for the First Week of December

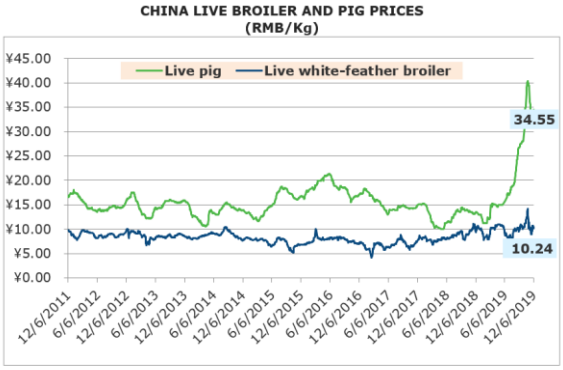
On the heels of the recent food inflation data, China's central government said that it would release additional pork reserves for upcoming New Year's celebrations. With China's Lunar New Year holiday beginning at the end of January, analysts expect to see market demand recover here in December. With some of China's major privately-owned pork producers redirecting marketable pigs to breeding activities, the supply of lean hogs remains extremely tight. Last week saw the first price uptick in the national average live hog price in five weeks, as the average price gained RMB 2.94/kg ($.42/kg) or RMB 1.33/lb. ($.19/lb.) to RMB 34.55/kg ($4.91/kg) or RMB 15.67/lb. ($2.23/lb.). Meanwhile, the live white feather broiler price reversed a portion of the gains from two weeks ago and fell by RMB .39/kg ($.06/kg) or RMB .17/lb. ($.03/lb.) last week to RMB 10.24/kg ($1.45/kg) to RMB 4.64/lb. ($.66/lb.).

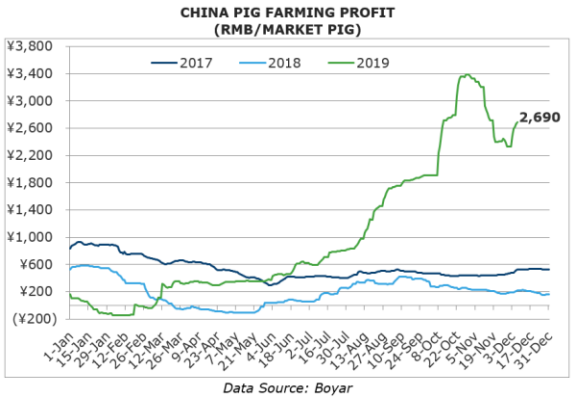
Operationally, hog farmers saw their profit margin improve after weeks of decreases. Through last Friday, the average profit per head had ticked up by RMB 293/head ($41.62/head) from the previous week to RMB 2,690/head ($382.10/head). A year ago, the average profit per head was just RMB 201/head ($28.55/head).

MARA Announces Three-Year Recovery Plan

On 6 December, China's Ministry of Agriculture and Rural Affairs (MARA) announced a new three-year recovery plan to speed up hog production. The plan's goal is to begin reversing the downward trend in China's live pig inventory by the end of this year. Over the course of the next two years, MARA has set a goal restoring live pig inventories to pre-African Swine Fever

(ASF) by the end of 2021. To achieve this goal, MARA will focus on encouraging producers to increase their stocks of productive sows and create a new parent-generation of breeding pigs.





Oilseeds

Soymeal Inventory Improves for Third Straight Week

Last week saw China's estimated soymeal inventory tick up by 9,200 MT (+2.2 percent) to finish at 422,900 MT, as demand for soymeal continued to soften. Estimated soymeal stocks in Shandong Province rose by 9,000 MT (+45.7 percent), while in the East Region, they improved by 14,200 MT (+6.0 percent) to 249,700 MT. In contrast, estimated soymeal inventories fell by 7,000 MT (-7.1 percent) to 91,000 MT in Guangxi Province and by 5,000 MT (-47.6 percent) to 5,500 MT in Fujian Province. On an annualized basis, China's nationwide soymeal stock through the end of last week was down 514,500 MT (-54.9 percent) from a year ago. Looking ahead, soymeal stocks will likely continue this pace of modest recovery, as long as the cost of imported soybeans remains relatively cheap.

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

	Northeast	North	Shandong	East	Guangdong	Guangxi	Fujian	Total
13 December 2019	3.0	4.0	25.8	236.1	54.6	62.5	6.0	392.0
Week-on-week	2.0	2.0	-2.9	-13.6	9.6	-28.5	0.5	-30.9
Month-on-month	-1.0	-1.0	5.0	33.3	12.1	11.5	-23.0	36.9
Year-on-year	-118.5	-100.5	-41.4	-179.6	-34.9	-38.5	-38.0	-551.4

Source : CoFeed, China Grain

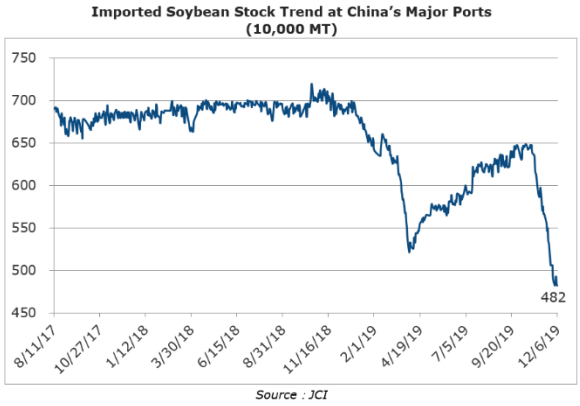
Imported Soybean Inventory Contracts Again, Imports Rise

The latest data release from China's Customs Bureau show soybean imports in November increased month-on-month from October by 33.9 percent for a total volume of 8.28 MMT. Through November, China has imported a total of 78.97 MMT here in 2019. Despite the increase in traffic last month, imported soybean stocks at the country's major seaports fell by 85,200 MT last week to just under 4.82 MMT. Regionally, the largest weekly decrease occurred at the four major ports in Guangdong, where imported soybean stocks fell by 140,000 MT (-16.5 percent) to 708,400 MT or 14.7 percent of the national total. At the five major ports in Shandong Province, imported soybean inventories decreased by 94,000 MT (-6.5 percent) to just above 1.35 MMT or 28.1 percent of the national total.

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

	Total	Other Ports	Shandong	Guangdong	Jiangsu
6 December 2019	4,816.7	2,008.5	1,351.7	708.4	748.1
Week-on-week	-85.2	96.8	-94.0	-140.0	52.0
Month-on-month	-1,086.4	-795.0	-94.4	-200.5	3.5
Year-on-year	-2,075.8	-967.3	-230.5	-502.6	-375.4

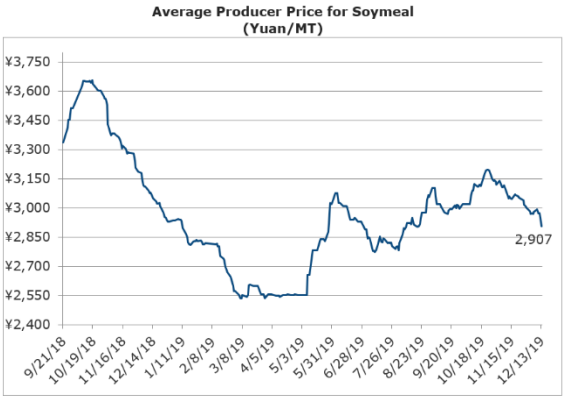
Source : JCI



Crush Margins Fall on Declining Meal Prices

The average CNF price for imported U.S. soybeans was unchanged from the previous week, while for Brazilian soybeans, it inched by $1/MT last week to $405/MT. On the wholesale front, the average producer's price for soymeal continued its downward trend, shedding RMB

22/MT ($3.13/MT) last week to finish at RMB 2,978/MT ($423.01/MT). In contrast, the cash price for soyoil recovered some of the losses from two weeks ago and improved by RMB 31/MT ($4.40/MT) last week to an average of RMB 6,494/MT ($922.44/MT). Factoring in the additional 25 percent tariff, the decline in soymeal prices pushed up the average operating loss on U.S. soybeans to a deficit of RMB 611/MT ($86.79/MT). Without the additional penalty, the crush margin on U.S. soybeans fell by RMB 15/MT ($2.13/MT) to RMB 170/MT ($24.15/MT). Finally, the crush margin on Brazilian soybeans ticked down last week by RMB 23/MT ($3.27/MT) to RMB 72/MT ($10.23/MT).



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)
6 December 2019	393	7.04	2,978	6,494	-611	-86.8
Week-on-week	0	.01 (-.142%)	-22	31	-16	-2.3
Month-on-month	-20	.04 (-.571%)	-138	-77	55	7.8
Year-on-year	0	.18 (-2.62%)	-132	1,184	14	2.0

Source: JCI

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

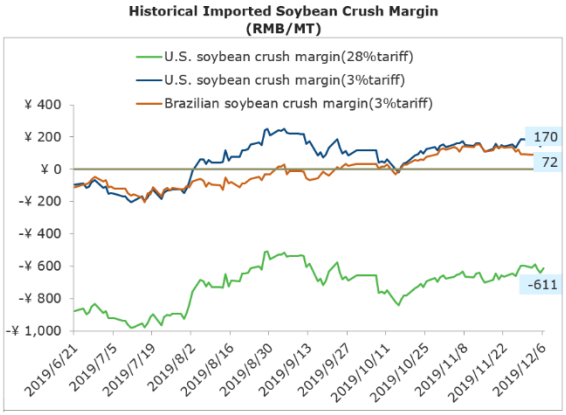
	Imported Soybeans Cost & Freight (USD/MT)	Exchange Rate (USD/CNY)	Soymeal Prices (RMB/MT)	Soybean Oil Prices (RMB/MT)	Crush Margin *(Tariff-3%)* (RMB/MT)	Crush Margin (USD/MT)
6 December 2019	393	7.04	2,978	6,494	170	24.1
Week-on-week	0	.01 (-.142%)	-22	31	-15	-2.1
Month-on-month	-20	.04 (-.571%)	-138	-77	20	2.8
Year-on-year	0	.18 (-2.62%)	-132	1,184	34	4.8

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)
6 December 2019	405	7.04	2,978	6,494	72	10.2
Week-on-week	1	.01 (-.142%)	-22	31	-23	-3.3
Month-on-month	-9	.04 (-.571%)	-138	-77	-70	-9.9
Year-on-year	0	.18 (-2.62%)	-132	1,184	32	4.5

Source: JCI



Source : JCI

Grains

Domestic Corn Prices Decline Across China

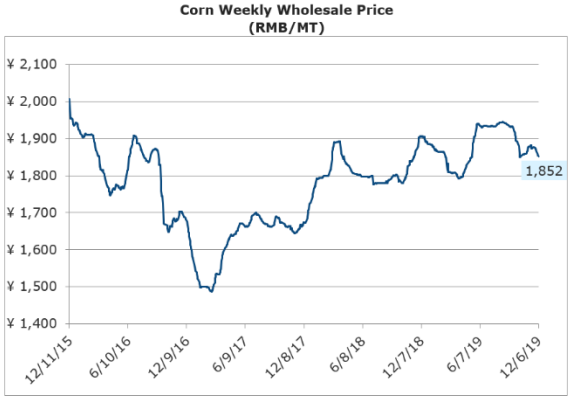
A combination of decreased demand for feed and an increase in the supply of corn from the current crop year continued to put downward pressure on cash prices last week. The biggest weekly decrease occurred in Jilin Province, where the average price contracted by RMB 31/MT ($4.40/MT) last week to finish at RMB 1,679/MT ($238.49/MT). In Shandong Province, the average corn price declined by RMB 19/MT ($2.70/MT) to RMB 1,930/MT ($274.15/MT). The net effect was the national average price for domestic corn dropping by RMB 12/MT ($1.70/MT) last week to RMB 1,852/MT ($263.07/MT).

On the processing front, trends were mixed last week. In Shandong Province, the average cornstarch price fell by RMB 70/MT ($9.94/MT) to RMB 2,430/MT ($345.17/MT), while the average price of corn gluten meal jumped up by RMB 180/MT ($25.57/MT) to RMB 4,560/MT ($647.73/MT). In Jilin Province, the average cornstarch price improved RMB 50/MT ($7.10/MT) to RMB 2,230/MT ($316.76/MT), while the average price of ethanol increased by RMB 100/MT ($14.20/MT) to RMB 4,950/MT ($703.13/MT).

China Corn Wholesale Price (RMB/MT)

	Nationwide	Heilongjiang	Jilin	Liaoning	Shandong	Guangdong
6 December 2019	1,852	1,625	1,679	1,770	1,930	1,993
Week-on-week	-12	-5	-31	-14	-19	-7
Month-on-month	-27	-46	-71	-52	-21	-10
Year-on-year	-54	-55	-94	-81	-53	-17

Source: CNGOIC



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
6 December 2019	1,930	2,430	4,560	201	1,670	2,230	4,320	225
Week-on-week	-20	-70	180	-29	-30	50	0	90
Month-on-month	-10	60	360	116	-30	50	0	88
Year-on-year	-70	-190	60	43	-130	-170	-240	66

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
6 December 2019	1,960	5,200	2,170	760	1,660	4,950	1,570	380
Week-on-week	0	0	0	-6	-20	100	-10	58
Month-on-month	-20	-200	0	-139	-60	100	-130	61
Year-on-year	-80	100	120	581	-190	50	-250	167

Source: JCCE

WPI POLICY ANALYSIS

Clash of the Titans

By Gary Blumenthal

Earlier in December, Robert Lighthizer, the U.S. Trade Representative, has turned his sights on Europe where he declared earlier this month, "We have a very unbalanced relationship…".

In addition to punitive tariffs already imposed, the Trump Administration is looking at additional punishment for the EU's Airbus subsidies, plus retaliating for France's digital tax. Meanwhile, EU Trade Commissioner Phil Hogan is adding more aggressive trade policy tools to his repertoire. If a meeting next month between these two officials is as cold as expected, the transatlantic trade environment is about to get uglier.

Partisan economist Paul Krugman belittled the Trump Administration's recent accomplishments with China but Lighthizer retorts that real structural changes were promised, and it is now up to Beijing to comply. Mr. Trump has successfully triangulated trade policy in Washington. He has bipartisan support for his trade policy, including labor unions and Democrats now backing a trade agreement (USMCA) for the first time in decades. The House Ways & Means Committee this week approved a resolution confirming the importance of the WTO, but also the reforms of the institution being sought by USTR.

Meanwhile, Brussels only seems to be confirming Washington's worst characterizations of Europe's approach to trade. EU Agriculture Commissioner Janusz Wojciechowski says Europe will reduce soybean imports under the unsubstantiated claim of climate and environmental benefits. Europe's new Farm to Fork policy calls for shortening the length of the agrifood chain, oblivious to the implications of this policy for its own large volume of food exports. President Trump believes Americans will vote for him next year if he shows that he is willing to fight for their economic equality and Europe is going to be his next cause celebre.

Do Oil & Ethanol Finally Agree on Something?

By Dave Juday

For the past two years the ethanol industry has hounded EPA about its use of small refinery exemptions (SREs), calling the increase in exempted volumes in recent years "illegal." Apparently, the American Petroleum Institute (API) agrees. In comments filed on EPA's proposed supplement rule to offset the SREs, API said it opposes the offset and that the "underlying legal flaw is EPA's drastic and unlawful expansion of [SREs]."

Under a supplemental proposal for the 2020 volumes issued in October, EPA is considering adjusting the blending rates for biofuels to make up for the impact of past – and future - SREs, proposing two formulas:

1. Assuming that future SREs would be equivalent to the average that DOE recommended in 2016-2018, which was 770 million-gallon equivalent RINs – that equates to about 577.5 million extra gallons of ethanol in 2020;

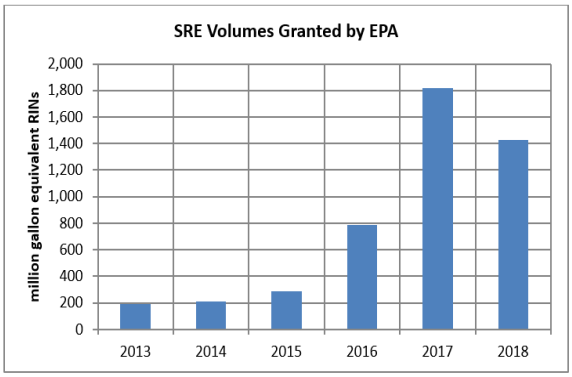
2. Assuming that future SREs would be equivalent to the average that DOE recommended in 2015-2017, which was 770 million-gallon equivalent RINs – that equates to about 435 million gallons of ethanol in 2020.

Based on which formula is picked, the biofuel blending rate for obligated refineries would be increased to accommodate the additional gallons.

Of course, those refineries without the SREs would have to make up the difference. EPA's goal is to ensure that 15 billion gallons of ethanol would be blended into the fuel supply.

API has filed comments calling the supplemental plan "contrary to the statute and arbitrary and capricious" and has argued that the higher blending rates proposed would amount to a reallocation of the RVOs. The statute, API argues, "does not permit reallocation" and the plan would be an "additional market distortion" that punishes non-exempt refiners. It appears that the industry would sue the EPA over the plan should it move forward.

What is most interesting, however, is that API agrees with the ethanol industry that the number of SREs should have been limited in the first place. The chart below shows the growth in the exemptions..



Source: EPA, WPI

Excerpts of API's comments are below:

Perhaps such an approach could be defensible if EPA's small refinery exemption policy remained consistent, but EPA has repeatedly shifted course in recent years, such that any attempt to project small refinery exempt volumes in future [years] is speculative and unreliable.

Accordingly, rather than reallocate small-refinery exempt volumes, EPA should limit its small refinery exemptions to those actually authorized by the statute and supported by the administrative record.

While we recognize EPA's statutory authority [to] grant small refinery exemptions, API recommends that EPA discontinue the practice of granting large numbers of SREs each year.

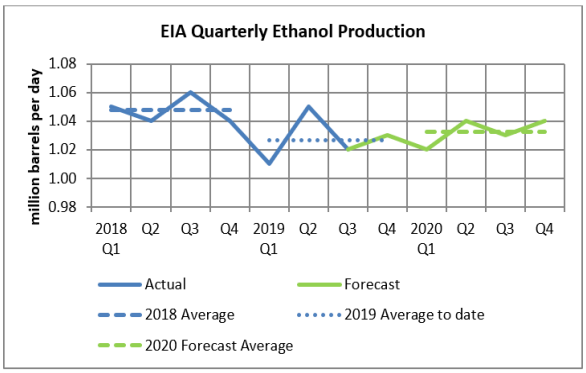
Both the petroleum industry and the ethanol industry don't like EPA's proposal – petroleum because it would result in too much biofuel blending, ethanol because it is not enough. But both also dislike EPA's approach to the SREs over the past two years and are calling for fewer exemptions. Now, what does EPA do? Best guess is that the 2019 SREs announced at the end of the compliance year will be lower than years past, but there is no way to formalize that in a rule.

Since EPA is proposing to use the Energy Department's data in the supplemental rule, following is a look at EIA's November Short Term Energy Outlook (STEO).

Domestic consumption of ethanol in 2020 is expected to stay the same as 2019 at 14.4 billion gallons, which would be 10.1 percent of the 142.72 billion gallons of gasoline consumption forecast for 2020. Total gasoline consumption for 2020 is forecast to decrease slightly (306 million gallons) from 2019.

EIA is forecasting an ethanol production rebound in 2020, but volumes will fall short of 2018 levels. The forecast for 2020 is 1.0325 million barrels per day, or annual production of 15.83 billion gallons. That compares with the projected 2019 production of 1.0267 million barrels per day, or 15.739 billion gallons.

In its U.S. Ethanol Plant Production Capacity Report for 2019, EIA assessed total production capacity at the beginning of 2019 at 16.868 billion gallons, more than a billion gallons above its forecast for production. In 2018, the industry added 1.04 billion gallons of nameplate capacity. For comparison, production in 2018 was 1.0475 million barrels per day, which is 16.05 billion gallons.



Source: EIA

Retail gasoline prices are expected to increase 2 cents to average $2.62 per gallon in 2020, compared to the projected year-end 2019 average price of $2.60.

Flighty Farm Proposal

By Gary Blumenthal

U.S. Senator and Democratic presidential candidate Cory Booker (D-New Jersey) is getting attention in populist corners for his proposed Farm System Reform Act that would place a national moratorium on "factory farms."

The act does not define "factory" farms though it would also phase out large CAFO's, as defined by EPA, by 2040. Booker declares that "Large factory farms are harmful to rural communities, public health, and the environment" but provides no data to support the assertions. On a per unit of production basis, scale producers are unlikely to be more harmful to health or the environment.

The Act would also end competition amongst growers seeking to sell livestock to packers. Competing foreign food suppliers will be happy to learn that the bill would bring back country or origin labeling. No major farm organizations support the proposal.

According to the political analysis firm FiveThirtyEight, Booker polls at less than 2 percent both nationally and in the "factory" farm heavy state of Iowa where the first caucus will be held on 3 February. He is also a vegan.


WORLD PERSPECTIVES
AT THE NEXUS OF POLICY & MARKETS