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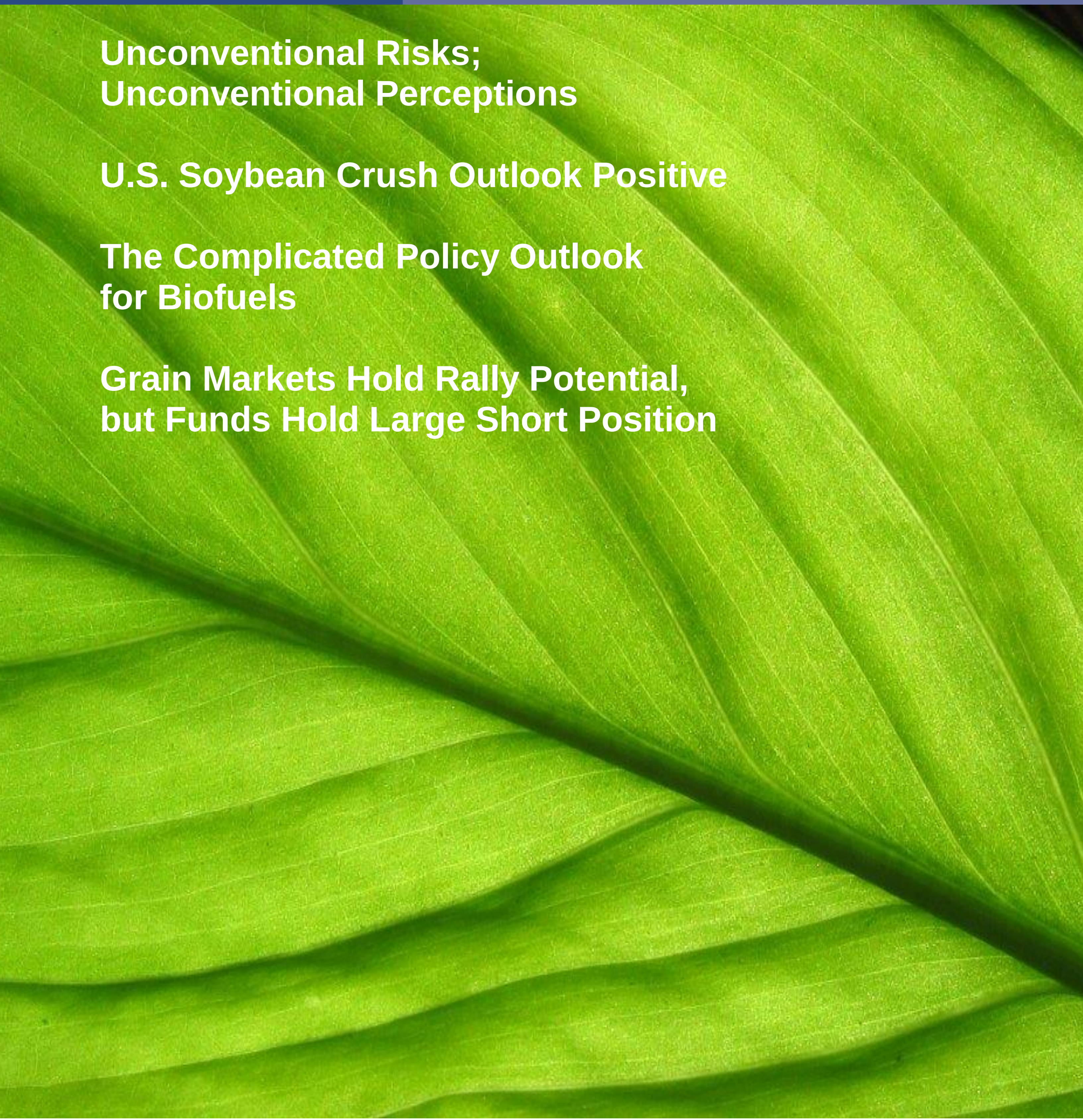

Unconventional Risks; Unconventional Perceptions

U.S. Soybean Crush Outlook Positive

The Complicated Policy Outlook for Biofuels

Grain Markets Hold Rally Potential, but Funds Hold Large Short Position

WORLD PERSPECTIVES: AG REVIEW

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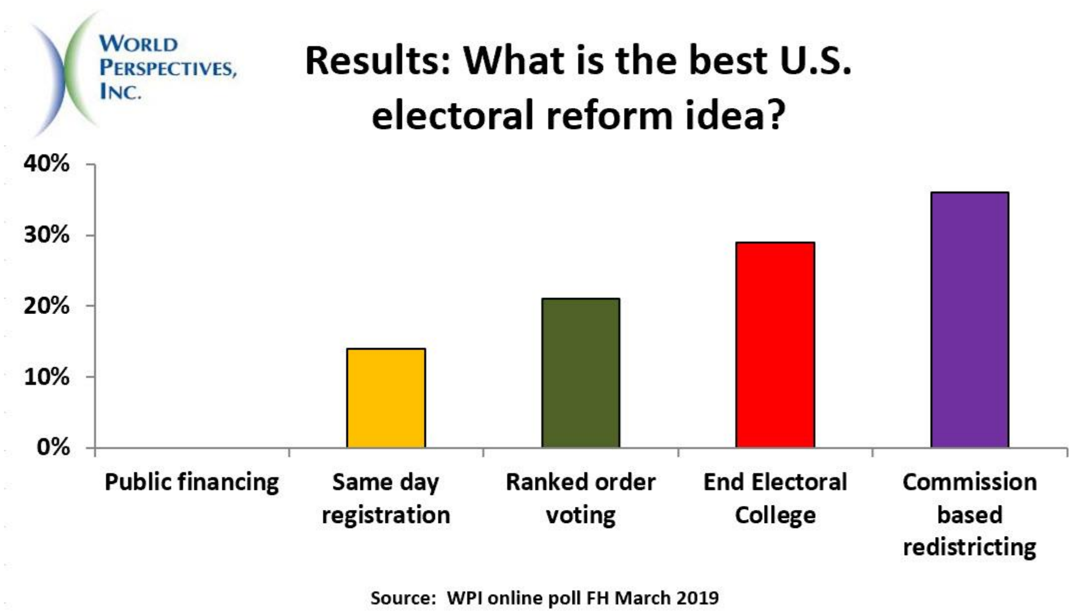
CONTENTS

WPI POLLING

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



WPI AGRIBUSINESS SUBSECTOR OUTLOOK

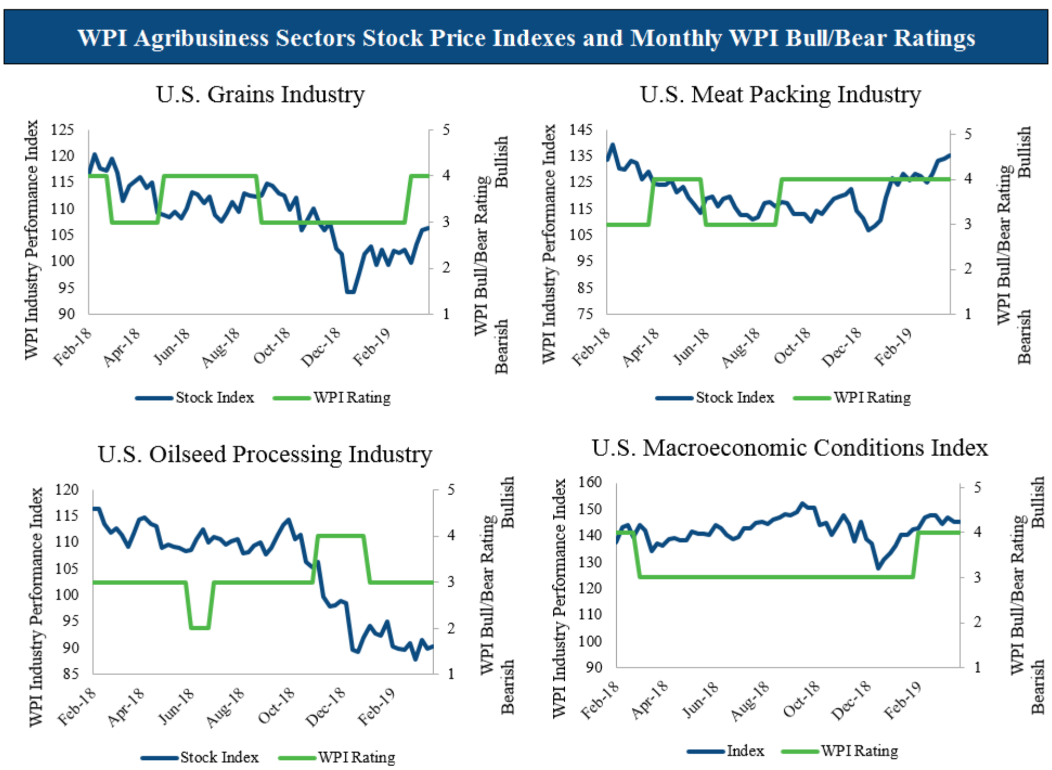
By Matt Herrington

Since the last issue of this publication, U.S. and global equity markets have largely moved sideways amid conflicting economic data and outlooks. With the U.S. treasury yield curve inverted and global economic growth slowing, especially in Europe, some investors are becoming nervous. However, most U.S. economic data, including consumer spending, remains positive and should support the business environment going forward.

WPI's agribusiness indexes are largely mixed from last month. The Grains and Oilseeds Indexes are slightly higher, while the Farm Inputs and Farm Machinery Indexes are slightly lower.

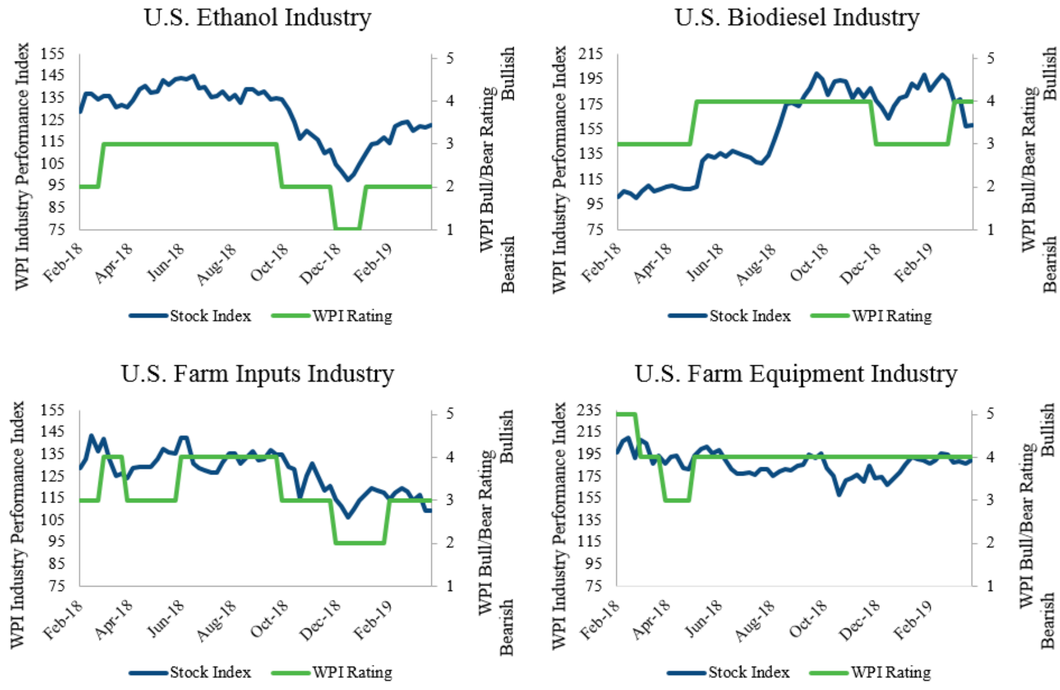
The Dairy Index is sharply lower as that sector remains mired in economic weakness. Notably, the WPI Biodiesel Index is sharply lower as well due to poor earnings results from one company included in the index.

Looking forward, WPI continues to see economic growth supporting agribusinesses. Ongoing positive statements from both sides regarding the U.S.-China trade war are encouraging, and any resulting agreement would stimulate U.S. ag exports and commodity prices. Downside risks include slowing growth in Europe and the potential fallout from a souring of U.S.-Sino relations.



Source: WPI
Indexes are constructed with 1 January 2016 as the base period (index = 100)

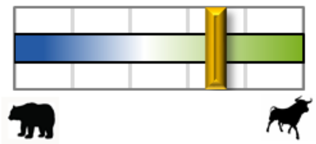
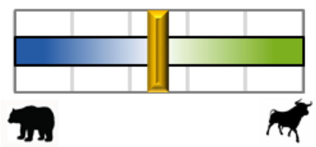
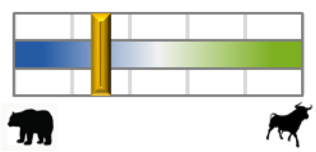
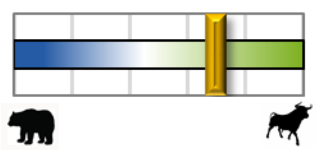
WPI Agribusiness Sectors Stock Price Indexes and Monthly WPI Bull/Bear Ratings, Continued



Source: WPI
Indexes are constructed with 1 January 2016 as the base period (index = 100)

WPI BULL/BEAR LEANINGS FOR AGRIBUSINESS

By WPI Staff

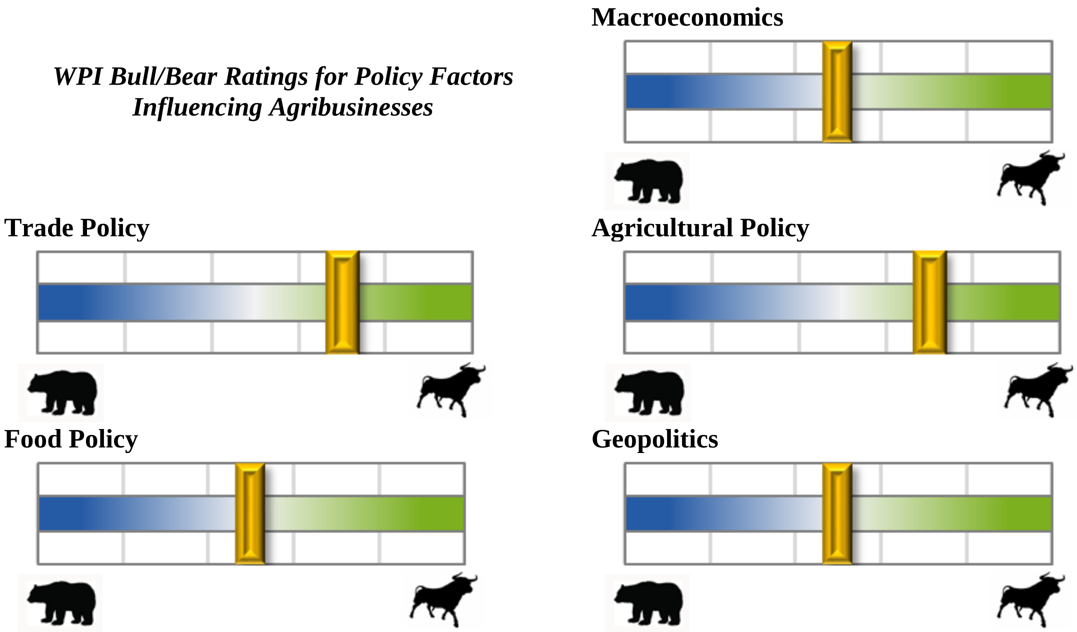
Industry	WPI Industry Bull/Bear Rating	Predominant Influencing Factors
U.S. Grains Industry		1. Progress on a U.S.-China trade deal should spur exports and support U.S. prices. 2. With funds holding a record-large short position in grains and the odds of a delayed 2019 planting increasing, the rally potential of corn and spring wheat is especially large.
U.S. Soybean Crush Industry		1. Soybean prices should firm slightly but remain stable, unless a U.S.-China trade agreement is reached. 2. U.S. soymeal prices will remain on the defensive with pressure from Argentine supplies and competition from DDGS. 3. With rising biodiesel and soyoil exports, along with a bullish biodiesel outlook, U.S. soyoil prices should firm heading into the summer.
U.S. Biofuels ***Eethanol*** ***Biodiesel***	 	1. Both ethanol and biodiesel are facing pressure from the EPA granting of SREs and see lower crude oil prices affecting blending margins. 2. Biodiesel, however, is benefitting from the duties on Argentine imports, and there is a strong likelihood that the biodiesel tax credit will be reinstated for 2019 and 2020. 3. Year-round E15 usage will almost certainly be approved, but it is unlikely to have a dramatic impact this summer. Meanwhile, ethanol stocks are building, and production plans are being trimmed. 4. A breakthrough in the trade talks with China could help clear some inventory, and shipments of DDGS to China could also help ethanol producers' net margins, but domestic blending is still under pressure.

Source: World Perspectives, Inc.

Policy Factor

Countries are increasingly engaged in unconventional threats to one another, and two new reports, one by the U.N. and another by the OECD, provide unconventional insights for government policymakers.

WPI Bull/Bear Ratings for Policy Factors Influencing Agribusinesses



Source: World Perspectives, Inc.

GRAIN BUSINESS UPDATE: CHINA AND SPRING PLANTING

By Robert W. Kohlmeyer

Top Reasons WPI is Bullish the U.S. Grains Industry

- Progress on a U.S.-China trade deal should spur exports and support U.S. prices.
- With funds holding a record-large short position in grains and the odds of a delayed 2019 planting increasing, the rally potential of corn and spring wheat is especially large.

For more than a month, participants in the grain business and anyone interested in agricultural markets have been acutely following the ebb and flow of the negotiations between the U.S. and China that are aimed at resolving their trade dispute and the tit-for-tat tariff war it engendered. Comments from Trump administration officials and Chinese sources have alternated between optimism that an agreement will be reached and concern that China will not agree to make the structural changes demanded by the U.S. The U.S. is asking that it take steps to reduce its bilateral trade deficit, provide greater protection of intellectual property and stop forcing those U.S. companies wanting to do business in China to turn over proprietary technology. Among other demands, the Trump administration also wants greater market access for U.S. industrial goods and energy products as well as an end to China's policy of subsidizing its state-owned companies.

Complaining about China's trade practices and promises to get tough with the country was a consistent theme of Donald Trump's presidential campaign in 2016, and he wants to show that he keeps his campaign promises as he prepares to seek re-election in 2020. His "get tough" approach began last summer with the imposition of 25 percent tariffs on $50 billion of imports from China, which immediately retaliated in kind on $50 billion of imported goods from the U.S. Among the U.S. exports affected by the Chinese tariffs were soybeans, corn, grain sorghum, wheat, DDGS, ethanol, pork, wine and a number of other agricultural products. These products were targeted because farmers are an important part of Trump's base of support.

This action effectively halted U.S. exports of these agricultural commodities to China. It was particularly harmful for soybean growers and the soybean market since China accounts for about 65 percent of world soybean trade and was by far the largest buyer of U.S. soybeans. As a result, U.S. soybean prices sank, and prices for Brazilian soybeans, the only other major supply, were elevated as Chinese buyers rushed to buy those instead to cover their needs.

The initial tariffs were followed by other rounds as the U.S. tried to ramp up pressure on China, and that country again retaliated in kind. There were few efforts to end the tariff war and settle the dispute until President Trump met with China's President Xi Jinping in late November at a G-20 meeting in Buenos Aires. The two agreed to commence formal negotiations, and as a gesture of good will, President Xi offered to purchase 5 MMT of U.S. soybeans. Two Chinese government-owned companies that could avoid the tariff, COFCO and Sinograin, soon bought the volume indicated.

At a subsequent January meeting with President Trump in Washington, Chinese Vice-Premier Liu He said that China would buy a second 5 MMT lot of U.S. soybeans. This was also quickly accomplished. Some were surprised at how little impact the two 5 MMT purchases had on the U.S. soybean market. Other than a minor blip on word of each pending sale, it remained depressed. The Chinese purchases could not change the overwhelmingly bearish soybean fundamentals that still showed the likelihood of a record-large carryout at the end of the 2018/19 crop year.

President Trump had set a deadline of 31 March for reaching an agreement, or he would raise the tariff from 10 percent to 25 percent on $250 billion of Chines goods. This led to serious negotiations during February and early March. Trump then declared that enough progress had been made to extend the deadline indefinitely.

It thus appears that an agreement is finally emerging. Reportedly, it is being crafted word by word and will be about 150 pages long. The Trump administration had hoped to have it ready enough to put the finishing touches on it during a meeting between the two presidents in Florida on 31 March. However, the Chinese do not want to risk a last-minute snag that would cause such a meeting to break up without a deal signed. They insist that agreement be reached on every detail before a summit meeting and signing ceremony are scheduled.

During the course of recent trade discussions, Chinese officials promised to buy yet another 10 MMT of U.S. soybeans. That process has begun with trade reports indicating China has bought about half of that quantity, including a significant amount of new 2019/20 crop soybeans to be shipped from Pacific Northwest (PNW) ports. (At this writing, USDA has reported about 1.6 MMT of the fresh soybean sales to China under the requirement that exporters report large sales on a daily basis.)

Terms of an eventual agreement are unclear, but reports are that it will include a Chinese commitment to substantially increase its annual purchases of U.S. industrial, energy and agricultural products. Some suggest that this commitment will include as much as a $50 billion increase in annual purchases of agricultural goods, including soybeans, grain, pork and ethanol. If true, this would be a huge boost to the U.S. agricultural economy that otherwise is facing prospects of another grim year in 2019. U.S. agricultural markets and traders are keenly trying to determine what will be in the final agreement.

Since it is now assumed that terms of a final deal will have been reached before an announcement of another summit meeting of the two presidents, the meeting itself will not be much more than an opportunity for them to be photographed together. However, soy and grain futures markets are badly in need of the kind of spark that the end of the U.S.-China trade war could bring with its promise of increased Chinese demand. Traders have become tired of the drawn-out negotiation process and have been unimpressed by China's "token" soybean purchases. However, they are anxiously awaiting the announcement that a Trump-Xi meeting is scheduled and hope that will give some optimism for a better outlook.

Funds Selling into a Bearish Market

Managed funds have been looking for markets in which to put some of the money they pulled out from the stock market during its big drop in late 2018, and part of that has gone into short positions in the grain and soy futures markets. Technical funds have been attracted by bearish chart formations, and funds that follow signals indicating the direction of futures market price momentum are attracted by the current bearish price action of grain and soy futures markets.

Both types of funds have piled into the corn, wheat and soy markets to establish major short positions. The most recent Commitment of Traders report from the Commodity Futures Trading Commission (CFTC) shows that as of 5 March, funds were short 178,000 corn contracts, 72,000 contracts of Chicago wheat, 45,000 contracts of KC wheat, 50,000 lots of soybeans and 42,000 contracts of soymeal. The sheer size of these short positions, which they have added to since that date, makes them vulnerable to a shift in market mentality from bearish to bullish – the sort of shift that a U.S.-China trade accord might cause. Any bullish reaction to increased demand indicated by such an agreement would likely be accentuated by fund short covering.

Spring Planting Season Looms

Midwestern farmers are normally getting their equipment ready for spring planting on 10 March. During those years with an early spring, some corn planting will have already begun. However, this year the northern half of the U.S. Corn Belt is still under a heavy snow cover. In some areas, the snow depth on the ground was 12 inches and more than that in parts of the Dakotas and northern Minnesota. Temperatures well below average will prevent much of a snow melt until the end of March. A quick spring warming will also melt the snow much faster than it can drain away. The risk is very high that streams of all sizes from local creeks to major rivers will be subject to potentially severe flooding. Fields too wet to work may persist for weeks. The spring planting season promises to be later than usual, especially in the upper Midwest.

For budgetary purposes, USDA has projected that U.S. planted corn acreage in 2019 will be about 92 million acres, up from 89.1 million last year. Soybean acreage was forecast at 87 million acres, down from 89.2 million in 2018. Larger corn plantings and reduced soybean acreage are consistent with the fundamental factors of supply and demand.

However, talk about what a late and wet spring could mean for farmers' planting choices has already begun. Typically, if farmers are unable to get their intended corn land planted as 1 June nears because of adverse weather or other factors, they consider switching to other crops. Soybeans are usually selected as they are better able to withstand the peak summer heat and dry conditions that may accompany it. It is too early to draw conclusions in late March, but conditions that could delay corn planting are converging.

Another interesting side note to this spring's planting decisions is that the new crop soybean/corn price ratio, based on new crop futures, has been running about 2.4 to 2.35 for the past few weeks. That is a price relationship usually thought to favor planting soybeans over corn. Relatively, new crop corn futures prices have fallen more than new crop soybean futures prices since early December. This price ratio is sending a message that is contrary to what the respective U.S. and world supply/demand analyses suggest is needed.

USDA will release its survey of the initial planting intentions of U.S. farmers on 29 March based on surveys taken during the first half of March. It will be interesting to see how they differ from USDA's early projections. In any case, weather and prices have injected a greater degree of uncertainty about how the final U.S. acreage counts for corn and soybeans will turn out.

U.S. SOYBEAN CRUSH OUTLOOK

By Matt Herrington

Top Reasons WPI is Neutral the U.S. Soybean Crush Industry

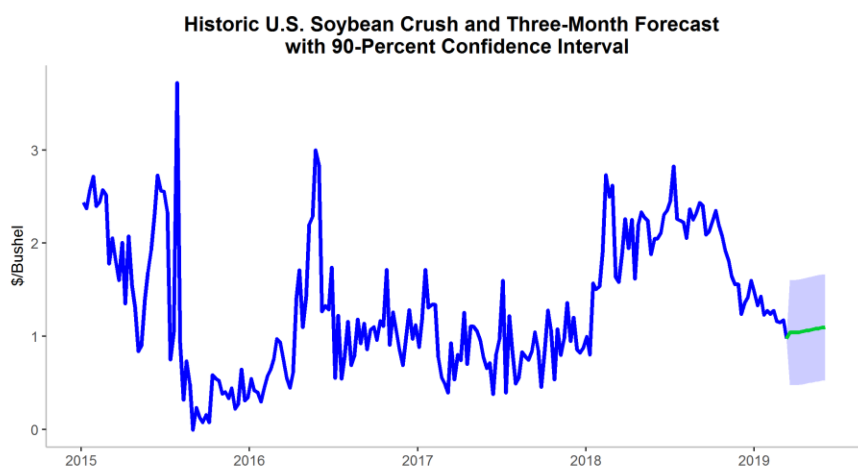
- Soybean prices should firm slightly but remain stable, unless a U.S.-China trade agreement is reached.
- U.S. soymeal prices will remain on the defensive with pressure from Argentine supplies and competition from DDGS.
- With rising biodiesel and soyoil exports, along with a bullish biodiesel outlook, U.S. soyoil prices should firm heading into the summer.

In the June 2018 issue of *Ag Review*, WPI predicted that U.S. soybean crush margins would decrease from over $2/bushel at the time of publication to $0.40/bushel by early October 2018. That prediction was directionally correct but perhaps issued too soon, as the margin rose above $2.50/bushel in July and then did not drop as far as expected. The biggest reason for the temporal error in the forecast was that the U.S.-China trade war pressured U.S. soybean prices (and supported crush margins) to a greater degree than anticipated by the model.

Now WPI is predicting that U.S. soybean crush margins will be largely stable for the coming 12 weeks. They are forecast to remain positive and favorable for crushing firms but are unlikely to reach the near-record levels of 2018. Volatility in margins should remain low with less than a 6 percent difference between the high and low margin forecasts.

Econometric Methods

To obtain these results, data for the various legs of the soybean crush were obtained from WPI's proprietary datasets, DTN, and USDA AMS. Initially, the data incorporated into early models included soybean, soyoil, and soymeal prices from the U.S., Argentina, Brazil, China, and the Black Sea region along with exchange rates for relevant countries. Additionally, domestic demand variables (U.S. cattle/hog/poultry inventories as a proxy for domestic soymeal use) were included as explanatory variables.



Source: World Perspectives, Inc.

Different econometric methods were used to isolate the most pertinent variables that influence U.S. soybean crush margins. These tests suggest (at least from a statistical standpoint) that prices for U.S. soybeans, soyoil and soymeal, Argentine soybeans and soyoil, and Brazilian soybeans explain the greatest degree of variation in U.S. soybean crush margins. Intuitively, these results are logical as the U.S. and Argentina are competitors for world soyoil markets, while the U.S. and Brazil compete more aggressively for soybean exports. Despite the competition between the U.S. and Argentina for soymeal exports, the model selection process did not suggest that those from Argentina exert a significant influence on U.S. crush margins.

Notably, econometric tests suggest that the Chinse port soybean price is an important factor for the global soybean market. Specifically, Granger Causality tests show that China's soybean price Granger-causes U.S. and Brazilian soybean prices. Interestingly, however, China's soymeal price seems relatively isolated from U.S. prices but influences Argentine prices.

The econometric methods chosen for this research suggest U.S. crush margins can largely be modeled by first forecasting prices for the following variables:

- Argentine soybean and soyoil
- Brazilian soybeans
- U.S. soybean, soyoil and soymeal

Three-month forecasts were generated using Vector Autoregressive Moving Average (VARMA) models for the aforementioned six variables. VARMA models allow for the modeling and forecasting of independent but correlated explanatory variables. Accounting for the correlations between the legs of the soybean crush around global markets is clearly important, especially given how shocks in one market are (typically) quickly transmitted to others.

Results

The results of this effort suggest **U.S. soybean prices will likely weaken but remain mostly steady heading into the summer.** With large U.S. ending stocks and slow exports, the supply situation will exert pressure on domestic soybean prices. The risk to this forecast, however, is that a U.S.-China trade agreement could (obviously) increase U.S. exports and spark a rally. WPI's models do not account for these political risks, so the potential for higher prices is likely greater than shown.

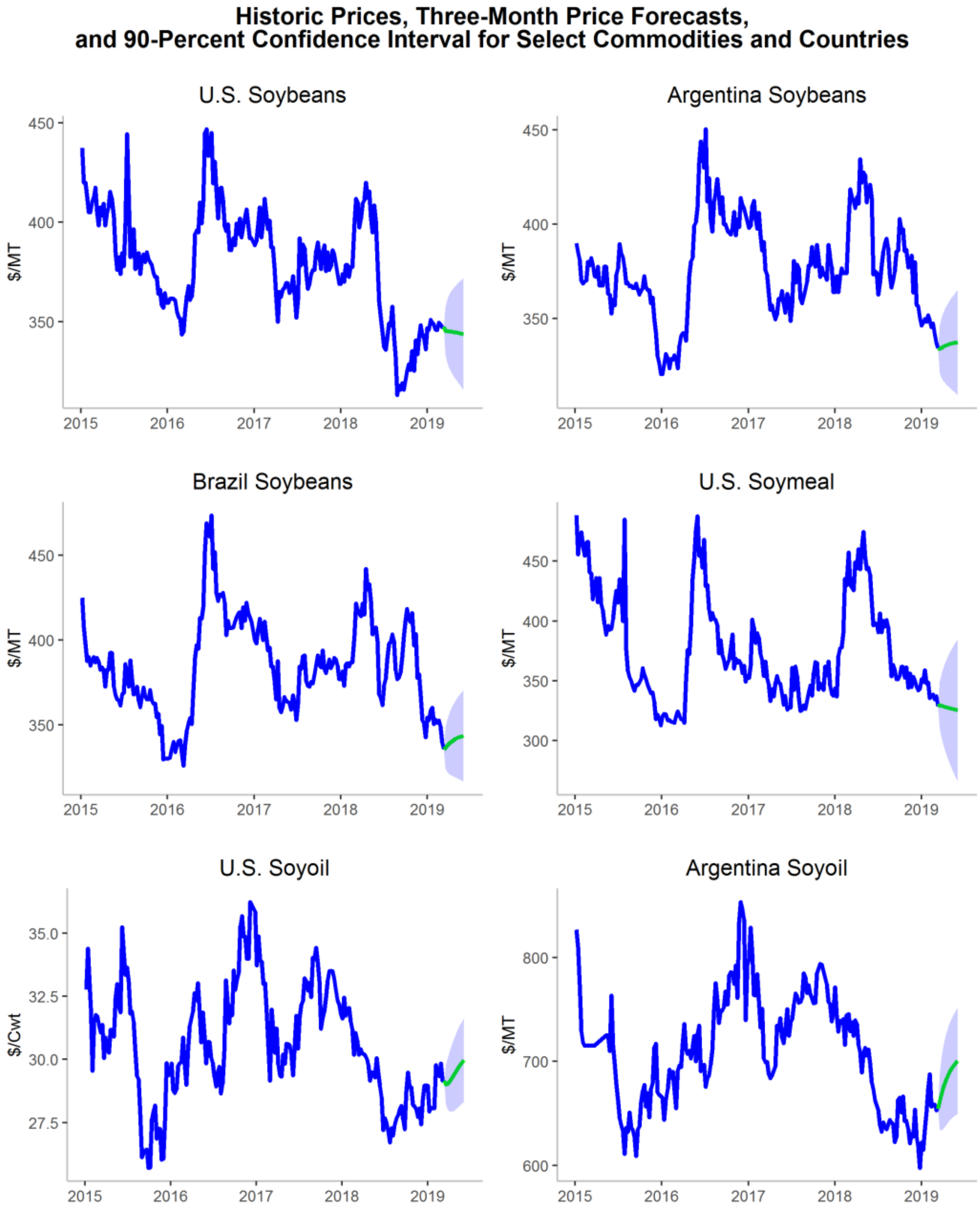
The VARMA models suggest **Argentine and Brazilian soybean prices will move higher** over the next three months. With both countries facing large crops this year, the price increase is somewhat surprising but could be justified if world demand draws heavily (as it often does) from them following their harvests.

U.S. soymeal prices are forecast to continue their recent weakness, retreating 1.3 percent to the $320-325/MT range. With soymeal consumption in China slipping due to that country's African swine fever (ASF) epidemic, prices are declining there as well. That is in turn pressuring Argentine soymeal values and, to a lesser degree, U.S. soymeal prices. Additionally, DDGS prices remain on the defensive in the U.S., which is also pressuring other feed ingredients.

Finally, **U.S. and Argentine soyoil prices are forecast to grow substantially by June,** rising 3.3 and 5.9 percent, respectively. Increasing crude oil prices remain supportive, while the recent sell-off in palm oil futures is a downside risk. Perhaps more importantly, however, U.S. biodiesel and soyoil exports have been increasing and should continue to do so going forward.

Together, these forecasts suggest **U.S. soybean crush margins will remain largely steady**, moving from a presently-estimated $0.97/bushel to $1.09/bushel in early June. While margins should remain positive, WPI anticipates more downside risk than upside potential because of the odds of a U.S.-China trade deal and the persistent weakness in palm oil prices.

Notably, there is a large standard error on the crush margin forecast because it is dependent on other forecasts' standard errors. Additionally, the models have a mean-reverting pattern, whereby long-run average values have a significant "pull" on the forecast value. As such, they may under weigh recent, fundamental market changes and overweigh historic values. This fact is submitted as a caveat to these results, as is the saying that "All [statistical] models are wrong, but some are useful."



Source: World Perspectives, Inc.

Implications

This research suggests crushers should pursue prudent risk management strategies to protect margins but that a period of broad stability is likely in store for the U.S. For investors, the next three months are likely to be a period when agribusinesses with crushing operations face good opportunities for respectable profits.

Efficient firms with above-average procurement strategies are likely to post substantial profits, while less efficient firms, although likely still profitable, will post slimmer margins. Those with historic track records of posting solid profits during periods of modest crush margins should be considered as potentially good for investors.

THE U.S. BIOFUELS INDUSTRY

By Dave Juday

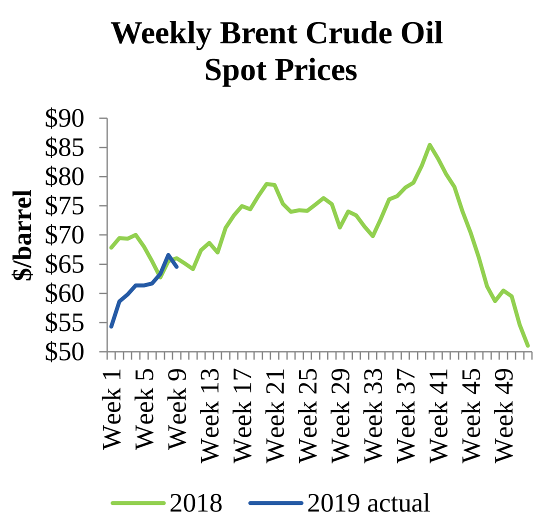
Top Reasons WPI Is Bullish Biodiesel, Bearish Ethanol

- Both ethanol and biodiesel are facing pressure from the EPA's granting of SREs and see lower crude oil prices affecting blending margins.
- Biodiesel, however, is benefitting from the duties on Argentine imports. There is also a strong likelihood that the biodiesel tax credit will be reinstated for 2019 and 2020.
- Year-round E15 usage will almost certainly be approved, but it is unlikely to have an impact this summer. Meanwhile, ethanol stocks are building, and production plans are being trimmed.
- A breakthrough in the trade talks with China could help clear some inventory, and shipments of DDGS to China could also bolster ethanol producers' net margins, but domestic blending is still under pressure.

The biofuels outlook is dependent on a number of factors that are very much in flux right now, especially from the policy perspective. Even some of the market factors such as feedstock costs will likely be driven by the success or failure of pending trade negotiations, particularly any trade deal with China and approval of the USMCA. For now, however, feedstocks look to be cheap. That outlook will be a factor in the volume of feedstock in inventory and under contract by biofuel producers. Having less feedstock under management preserves some of the cash on their books.

Energy markets are forecast to be bearish. The latest Short-Term Energy Outlook (STEO) from the U.S. Energy Information Administration (EIA) predicts Brent crude spot prices will average $63/barrel in 2019 versus $71/barrel in 2018. This lower price continues the bear market that started in the fourth quarter of last year.

The EIA further expects that West Texas Intermediate (WTI) crude oil prices will average $9/barrel less than Brent prices in the first half of 2019, and that discount will lessen to an average of $4/barrel by the fourth quarter. The better news for blender margins is that liquid fuel consumption is forecast to grow 1.7 percent in 2019 over 2018.



Source: EIA, WPI

The biggest unknown for the biofuels industry, which holds both upside and downside potential, is the political risk of renewable fuel policy.

Ethanol

In the February WASDE, USDA lowered its estimates of corn use for ethanol to 5.55 million bushels, a small 25-million-bushel decrease from the previous monthly report but part of a trend that has projected a reduction of 100 million bushels since the beginning of the marketing year. This comes as the final data from the EIA for 2018 and calculated by the Renewable Fuels Association (RFA) shows that ethanol consumption for the year was down about 5 percent from 2017. This is the first year-on-year decline since 1998.

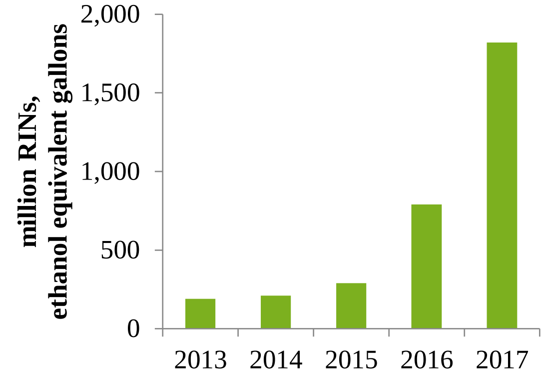
According to the RFA, this was driven by the EPA's granting of small refinery exemptions (SREs) in 2017. Early in 2019, the group argued that the "practical result of these exemptions has been a flood of [Renewable Identification Number] RIN credits onto the market, a dramatic collapse in RIN prices, reduced ethanol blending activity in 2018, and historically low ethanol prices." RFA offers the year-end data on ethanol as proof, citing a drop in blending rates as well as overall use. The national average ethanol blend rate was 10.13 percent in 2017 but down to 10.07 percent in 2018. In its early year forecast for 2018, the EIA estimated the blend rate would be 10.26 percent.

Small Refinery Exemption Outlook

In early March, the EPA granted SREs for 2017. That brought the total number to 34 with only 2 pending. The waived volume under the aggregated SREs is 1.820 billion ethanol-equivalent gallon RINs (for both ethanol and biodiesel) or 9.4 percent of the overall 19.28-billion-gallon required volume for that year.

To date, the EPA has 39 pending exemption petitions for 2018 and has taken no action on them. While the most recent SREs were granted under the same approval process that was in place for the rest of the 2017 petitions, the EPA will be under congressional pressure to revise its review-and-approval process to deny a much larger percentage of the petitions. The final decision for the 2018 SREs will be a critical issue for ethanol and biodiesel plant profitability.

Small Refinery Exemptions



Source: EPA, WPI

E15

On 12 March, the EPA released its much anticipated E15 rule. This would provide regulatory changes to allow gasoline blended with up to 15 percent ethanol to take advantage of the 1-pound-per-square-inch Reid vapor pressure (RVP) wavier that currently applies to E10 during the summer months. The American Petroleum Institute (API) and others have announced plans to challenge the E15 rule in court based on whether the EPA has statutory authority to grant the year-round use waiver.

RIN Reform

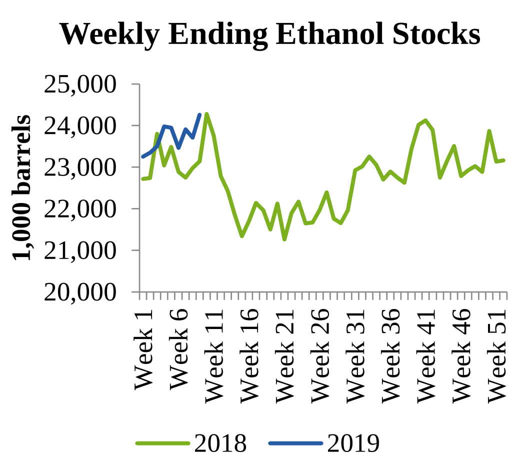
The rule issued by the EPA also contained reforms for D6 ethanol RIN credit trading that are intended to reduce volatility. The proposed changes include requiring obligated parties to report their separated RIN holdings if those totals exceeded 3 percent of that party's implied required volume obligation. If that threshold was met, then the party would be further required to report daily on its end-of-the-day separated RIN inventory as measured against 130 percent of its total implied conventional renewable fuel obligation. The EPA would then report the names of the parties exceeding the two thresholds.

Additionally, obligated parties would be required to retire a certain number of RINs for the first three-quarters of a compliance year based on their total implied conventional renewable fuel obligation. Non-obligated parties would be required to offset their RIN holdings each quarter with an equal number of RIN retirements. Finally, RIN holdings would be limited to obligated parties, exporters and certain non-obligated entities that are corporate or contractual affiliates of an obligated party.

The refinery industry, represented by API, reacted by saying the proposals "misdiagnose" the problems and would be "counterproductive." According to the group, the final refined products already reflect the cost of obtaining RINs and no reform is necessary. RIN prices are driven by demand for the credits, which is driven by the setting of the required volume obligations. The fuel marketers are also opposed to the RIN reforms. The question will be whether the more controversial RIN reform proposal will add time to the final rule promulgation, which needs to be completed before the 1 June start of the summer driving season to benefit E15, or whether the two proposals will be separated.

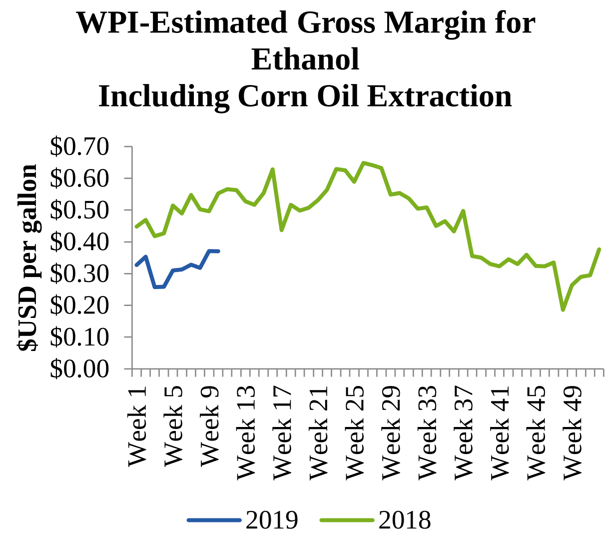
Stocks Building

Large stocks hang over the ethanol market. There was a drawdown in inventories during the first week of March, but that was from a near-record high matching early 2018. Inventories in export position in the Gulf continued to grow during that weekly drawdown. The reduction was led by a draw-in on the East Coast.



Source: EIA, WPI

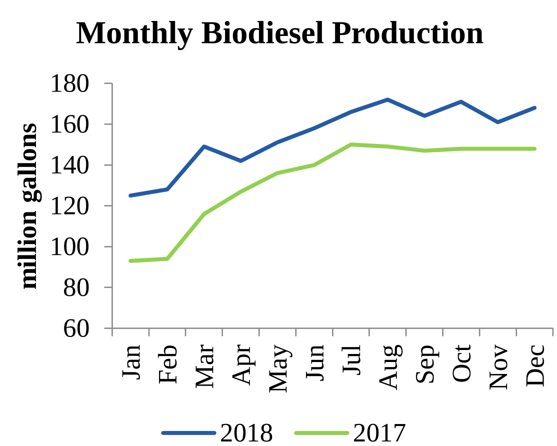
Margins remain under pressure. Given large inventories, lower crude oil prices and moderate growth in liquid fuel demand, there doesn't seem to be near-term relief in sight. Over the longer run in 2019, the outcome of the SRE issue will be the key to providing some support.



Source: USDA, WPI

Biodiesel

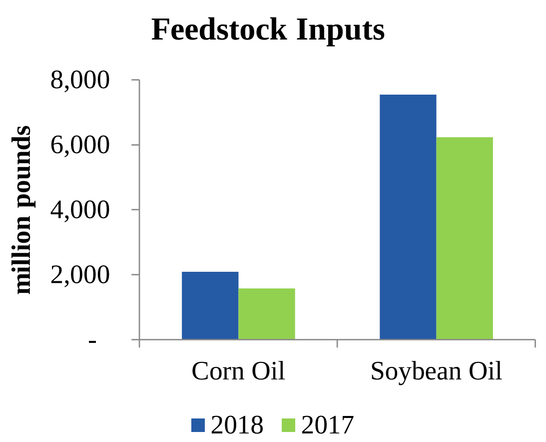
Biodiesel production reached 1.854 billion gallons in 2018, up 16 percent from 1.596 billion the previous year. Total capacity utilization among refineries increased from 68 percent to 75 percent.



Source: EIA, WPI

Production is off to a strong start this year as well. The latest WASDE raised its forecast of soyoil used to produce methyl ester for biodiesel in MY 2019/20 by 200 million pounds to 8.2 billion pounds. That is based on record production for the first quarter of the marketing year. However, production will be more than offset by higher use, and thus USDA forecast lower soyoil stocks. That amount of crude soyoil would convert into 1.05 billion pounds of biodiesel.

In 2018, soyoil accounted for about 52 percent of biodiesel production. Expanding dry mill ethanol production and corn oil extraction from DDGS also resulted in 32 percent more distillers' corn oil being used as biodiesel feedstock than in 2017.

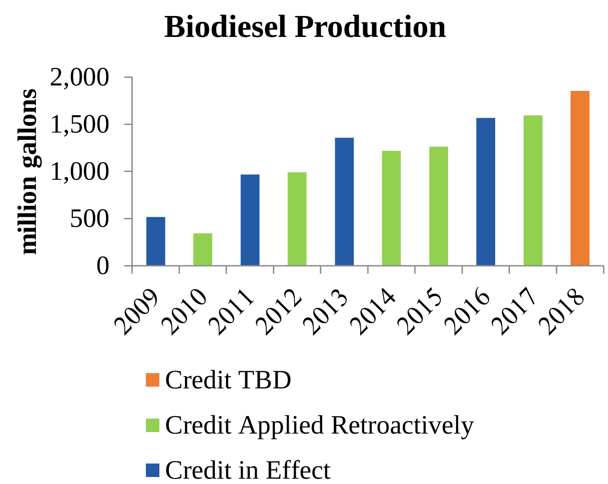


Source: EIA, WPI

Biodiesel Tax Credit

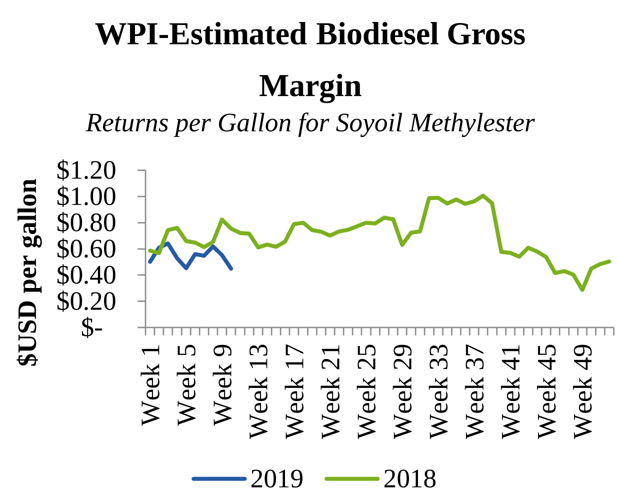
The biggest potential driver of biodiesel growth is a reinstatement of the biodiesel tax credit, which is being considered by Congress. The credit was in place from 2005 through 2009 but has since had a volatile existence. It was allowed to expire at the beginning of 2010, 2012, 2014, and 2015 but was eventually extended retroactively for those years and then expired again on 31 December 2016. For those years the credit had expired, it was eventually extended retroactively. In 2011, 2013 and 2016, it was in place at the beginning of the year.

2018, was somewhat of a breakout year for biodiesel production in that it increased dramatically without the tax credit in place at the outset. That can likely be attributed to the antidumping and countervailing duties on Argentine biodiesel imports.



Source: EIA, WPI

Congress is considering a tax extender package that currently includes the biodiesel tax credit. The biodiesel industry has been pressing for a longer-term extension, but the current proposal, introduced by Senate Finance Committee Chairman Charles Grassley (R-Iowa) and Ranking Minority Member Ron Wyden (D-Oregon), only applies to 2018 and 2019. Passage of this legislation would add significant profitability to biodiesel producers and benefit margins. There is a significant possibility that the tax credit will be extended; at this point, the larger question is the timing.



Source: USDA, WPI

POLICY TRENDS

By Gary Blumenthal

Top Reason Why WPI is Neutral Global Trade Policy

- Countries are increasingly engaged in unconventional threats to one another, and two new reports, one by the U.N. and another by the OECD, provide unconventional insights for government policymakers.

Conventional trade barriers are familiar; they include tariffs and technical barriers like standards or quotas to directly restrict the flow of products. The increase in these barriers is already causing economic uncertainty, but the accelerating use of newer type barriers will make things worse. Governments have many regulatory and judicial tools at their disposal to impede economic competition from abroad. In fact, global integration has increased the propensity of governments to practice extraterritorial application of their authorities.

American hegemony post-WWII provided Washington with ample opportunities to assert its will on other nations. The current largest irritant may be President Trump's use of the international banking system to block foreign companies from trading with Iran. The U.S. government imposes penalties on its own nationally-based banks but also on those based in other countries. For example, it recently extracted a $1 billion fine from Deutsche Bank

Most governments show preference for their own national-based companies while doling out hardship to foreign entities, but the dynamic is worsening. The U.S. imports many cars from Europe, especially Germany. Washington fined Volkswagen $25 billion for its fraud in the so-called Dieselgate scandal, but Europe gave the company a pass despite its citizens being sold many more of the flawed automobiles. Meanwhile, Europe has fined America's globally-dominant high technology companies like Microsoft and Google, and it wants to impose a new tax on revenues instead of profits on Facebook, Amazon, Apple, Netflix and Google (FAANG).

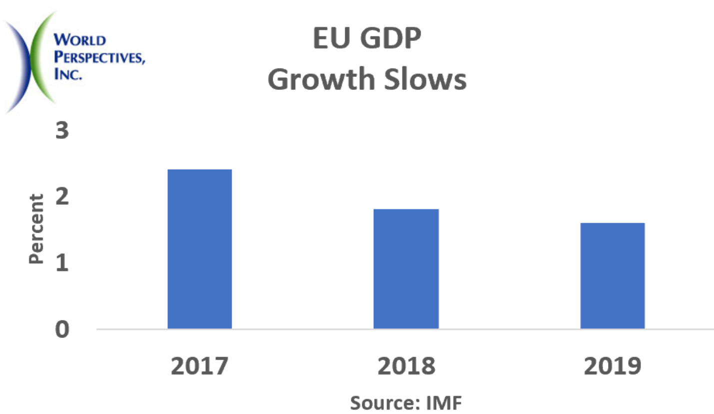
The U.S. wants a trade negotiation with Europe to address imbalances in the conventional barriers to American agriculture and automobiles. The response from Europe is defiance. The European Parliament voted against a transatlantic trade negotiating mandate, and France has added a new prerequisite not imposed on any other trading partner: the U.S. must first have the same environmental laws as Europe.

This latest demand is presumably meant to force President Trump to rejoin the Paris Agreement on preventing climate change – a nonstarter. It is unclear how comparability in environmental laws would even be measured. Simply signing the Paris Accord is not conclusive evidence of better environmental stewardship. The U.S. gets 34 percent of its electricity from burning coal, and Germany gets 44 percent of its electricity from an even dirtier coal supply.

Only sort of separately, German offficals are calling for the expulsion of U.S. Ambassador Richard Grenell because of his criticism that Berlin is failing to meet its NATO commitments for defense spending.

Europe's economy is struggling (see following graph). The International Monetary Fund (IMF) notes that its consumption rate, investment outlays and trade volumes have all diverged from those in the U.S. Mr. Trump's trade war with China was supposed to benefit Europe, but the

IMF now says it has worsened conditions on the Continent. The EU also bears more of the economic burden of Brexit's uncertainties. Since a third of Europe's auto exports head to the U.S., Mr. Trump may calculate that he wields a big stick with his threat of unconventionally imposing tariffs on those cars for national security reasons. Europe will retaliate, however, and the U.S. stock market has already reacted bearishly to the fall in global economic growth.



China has been playing unconventionally for many years with its forced technology transfers, cyber-hacking and other practices not envisioned by the WTO. Now Beijing is likely to impose a domestic policy rebalancing that will concurrently impact trade. It will compel its farmers to better balance their production of corn and soybeans, and it will use the African swine fever (ASF) outbreak to force consumers into eating more poultry and fewer pigs.

Two newly-issued reports offer an unconventional perspective to government policymakers with insights into public perceptions that are at once informative and confusing. The United Nations issued its seventh "World Happiness Report," and the OECD issued a first "Risks that Matter" tome. The volumes rely heavily on opinion surveys in various countries. The "World Happiness Report" grew out of the frustration of countries whose economies grew too slow to look good with gross domestic product (GDP) used as the metric of life's satisfaction. Instead, happiness is based more on health, social trust and community.
The report indicates small countries tend to be happier than large ones. Happiness inequality tends to occur within national borders rather than between countries. Well-being inequality is lowest in Europe where social services are strong, particularly in Scandinavia. This should be good news for U.S. Democrats running for the presidency in 2020 and promising European-style social democracy. In fact, the "Risks that Matter" report found that taxing the rich to help the poor was overwhelmingly favored everywhere. Citizens want more government services in every country surveyed, except in Denmark and France where social services are already robust. A *Wall Street Journal* survey confirms that Americans support free college, free health care, minimum basic income and other goodies.

However, the caution to 2020 Democrats running ever further to the left is the public's finickiness. Governments have trouble executing on politicians' promises, and the report found high levels of dissatisfaction regarding social policies and public services. Those surveyed find government services to be inadequate, inequitable, inaccessible and immutable with the public unable to influence them.

In fact, despite lower social services, the perception of life's risks (unemployment, health, education, violence, etc.) is lower in the U.S. than the OECD average, whereas they are higher than average in heavy social-spending countries like Belgium, Greece and Portugal. Meanwhile, China is a socialist country, and yet its citizens reflected their discontent by ranking an abysmal number 93 globally in terms of domestic happiness inequality. The lesson may be for government to focus on doing limited things well rather than avenging all of life's risks.

There are tradeoffs in the choices that countries make. Canada may be more serene and have a lower sense of happiness inequality than the U.S., but America is viewed as offering more opportunity. Americans have grown less happy over the past decade. Intuitively, one could assume this has been caused by illegal immigration, tribalism, identity politics or Trump's tweets. However, the authors contend it is self-inflicted since it is most correlated to addictions: obesity, substance abuse, digital media screen time, etc.

In general, the data shows that people are living safer, better-educated, healthier and longer lives. Bruce Meyer at the University of Chicago would argue that income is a poor guide to happiness or the sense of risk since he found consumption inequality has declined for the bottom 20 percent of Americans since 2005.

WORLD PERSPECTIVES

AT THE NEXUS OF POLICY & MARKETS