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Worker Welfare Battle

Dollar Versus Exportable Stocks

China to the Rescue?

Middle East, Mediterranean and Africa Analysis

U.S. Ag Trade Deficit and Meat Outlook

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CONTENTS

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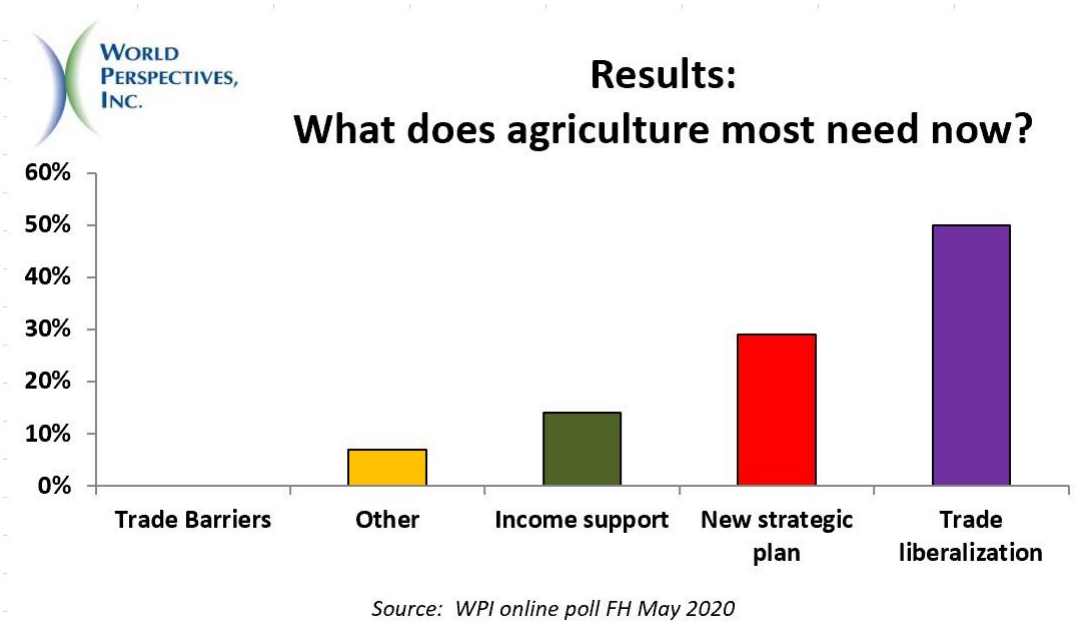
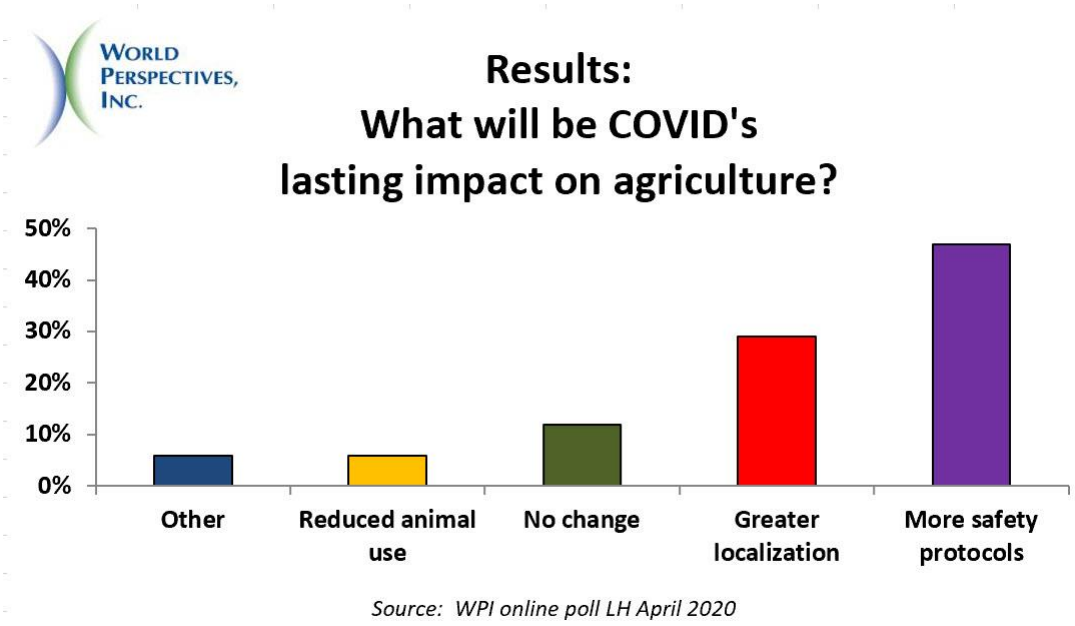
Below are the results of two recent WPI polls. Visit www.worldperspectives.com to cast your vote in our current survey.





FROM THE WPI TEAM

Looking Up

By Gary Blumenthal

If April was cruel, reopening the economy has made May a month of hopefulness. The fallout from COVID-19 continues, but human endurance depends upon hope. This issue of Ag Review reminds us that it is a very big world with lots of complex moving parts.

We start at the ground level – the human beings at the front line of the food sector that have been at risk to the coronavirus. We go sky high and talk about the interrelationship between supply/demand and exchange rates. We look regionally at developments in the Middle East and North Africa, plus probe China's agricultural purchasing intent. We circle back to look intently at the meat industry, and end with calculations about how supplemental government payments are going to keep farmers out of bankruptcy.

Throughout this issue you will see hundreds of hours of human effort to bring to life what otherwise might seem mundane. Each thought on a page is the result of absorbing a fire hose worth of information and distilling it down to something meaningful and succinct. It means using decades of experience in the food and agriculture sector – decades filled with passion for an industry, and discerning what is new or different, or seeing the patterns of repetition and recycle.

If you have thoughts about something and wonder what our analysts think, please send it along. We always welcome input and, because we are professionals, we relish interesting challenges. So, enjoy this edition of our monthly review, and drop us a message about any topic you'd like to see more closely explored.

WPI MARKET ANALYSIS

Worker Welfare Battle - 1 May

By Gary Blumenthal

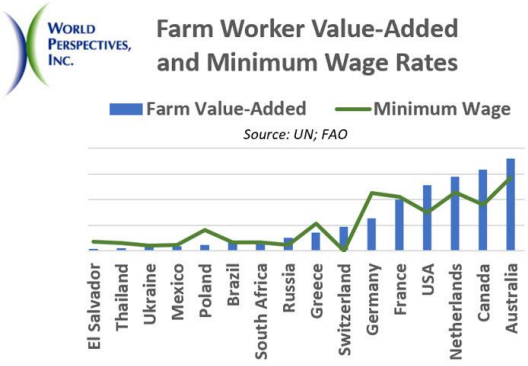
Now that some political jurisdictions are beginning to open with varying interpretations of safety, it has elevated the question of when is it safe to go back to work and what is an employer's liability?

President Trump invoked the Defense Production Act to mostly prevent meat packing plant closures due to legal liability concerns. Now the question of liability over COVID-19 health risks is being raised in factories, on farms and in federal agencies. Politicians are lining up in the usual way with the left defending workers and the right defending businesses.

Publicity over the plight of meat fabrication workers has prompted legislation that would give both legal and undocumented farm workers enumerated rights. While the return to capital has accelerated relative to the return to labor, the latter must still make a sufficient contribution to offset its costs. However, the contribution of labor ignores large differences in skill sets and technology. For example, Australia is tops in the FAO database for farm worker value-added, but this is due to a higher degree of automation and scale.

Farm labor is generally low-skilled and so a minimum wage assumption can be used to judge relative fairness to workers, except in Switzerland where there is no minimum wage. The U.S. attracts farm workers from Mexico and Central America because of the wide disparity in wage rates. Raising the benefits received by these workers in the U.S. will:

- Enhance farm worker welfare;
- Attract more migrant labor;
- Increase investment in automation; and
- Increase costs to consumers until automation trumps higher labor costs.



Dollar vs. Exportable Stocks – 6 May

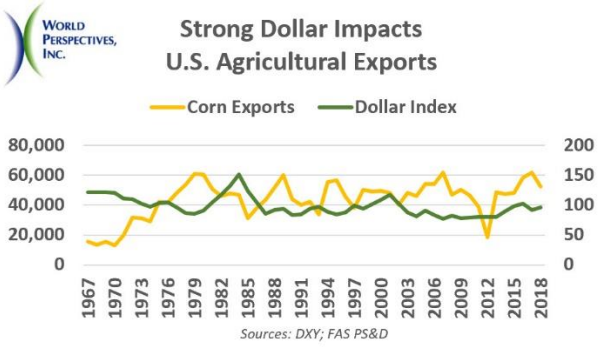
By Gary Blumenthal

Chicago futures have major agricultural commodities at some of their weakest prices in years and yet exports do not seem to be responding to their appeal. In part this is because the U.S. dollar index has climbed from 88.67 in January 2018 to 102.82 on 18 March of this year – effectively a 16 percent increase in the export tax.

However, the dollar alone does not explain the downbeat situation since competitive global demand is an even stronger component. Over the past five decades, the dollar has an average R2 of -0.43 but during years when the dollar is strong and global surplus stocks are concurrently, there is an outsized impact.

In 1979, when global stocks were down 43 percent, U.S. corn exports soared despite the dollar. In 2012, the dollar was relatively weak and should have made U.S. farmers competitive, but a drought left them with too little commodity to take advantage of the situation. With competitors holding ample stocks this year, Chicago futures cannot sink low enough to fully offset the currency advantage of competitors like Argentina

and Brazil. U.S. exporters are counting on a narrow upcoming window when competitors' exportable surplus has become more depleted.



China to the Rescue? – 6 May

By Bob Kohlmeyer

It is commonly accepted that without a major crop production disaster in the Northern and/or Southern Hemisphere, the fundamental outlook for U.S. corn, wheat and the soy complex in 2020/21 looks quite bearish. It appears that growing U.S. and world supplies will outpace demand.

That outlook is further complicated by the current and future impact of the coronavirus pandemic. However, given its severely negative affect on the U.S. economy and on the overall global economy, the still spreading disease is adding another bearish layer to the market's outlook. And so far, there is no sign of a weather-related problem for crops in any country or region capable of having a significant influence on grain and soy markets.

In fact, wheat production prospects are improving in Europe including Ukraine and Russia. Brazil and Argentina are producing, or are about to produce, large soybean and corn crops. The multi-year drought in Australia has been broken, and an impending La Nina is generally favorable to Southern Hemisphere wheat crops. Also, under generally favorable conditions U.S. farmers have already planted well over 50 percent of their corn crop and soybean planting is off to a fast start.

U.S. producers are hoping that China will purchase very large quantities of U.S. soybeans, grain, meat, ethanol and DDG's to counter the bearish market fundamentals. There is reason for hope since such purchases would be in accordance with the commitments the Chinese made in the Phase One trade agreement that was signed in mid-January and came into effect on 14 February. China agreed that during 2020 and 2021 it would buy $200 billion of U.S. goods and services over and above the amounts it bought in 2017 as a baseline. The carve-out for purchases of agricultural products is $40 billion more than the 2017 baseline with $12.5 billion to be in 2020 and $17.5 billion in 2021.

But there is considerable reason to question whether China will or can meet its agricultural purchase commitments. Immediately after the agreement was signed, there was skepticism about China's ability to fulfill those commitments. The text of the agreement states that purchases would be "according to market conditions." This suggests that China would have to need what was to be purchased and that U.S. agricultural products would have to be competitive with other origins.

There have been periods of time since the agreement was signed that U.S. soybeans and grain have been higher priced than other origins, and undoubtedly the U.S. will face stiff competition for extended periods of time during the balance of 2020 and into 2021.

Shortly after the Phase One agreement came into effect, Chinese buyers went on a massive spree of buying Brazilian soybeans. They covered most of their needs for March through July with some purchases for August on the cusp of the U.S. new crop harvest.

As an aside, we note that one result of China's buying blitz was Brazil's loadouts of 16.3 MMT of soybeans during April, a record for any month. In a single month Brazil loaded out about a third of USDA's export estimate for U.S. soybeans during the entire 2019/20 year. That is an average of nearly 150 million bu per week putting Brazil's logistical capacity at least equal to that of the U.S. Chinese state-owned companies that purchased some U.S. soybeans presumably for the state reserve, and Chinese crushers have taken a few cargoes of PNW soybeans with their shorter

transit time for logistical purposes. There have also been some purchases of U.S. new crop soybeans plus some corn and HRW to apply against China's TRQ's. There have also been purchases of pork and poultry to ease shortages with China's hog population decimated by African Swine Flu. But China is still a very long way from filling its 2020 agricultural purchase commitments.

As if the pandemic itself was not enough, the U.S. and China are now squabbling over when and how COVID-19 originated and whether or not China was forthcoming with information about it in a timely manner. President Trump has openly accused China of concealing vital information and accused the WHO of letting it happen. He has asked other countries to join in an investigation of all of it, but he has been careful to avoid criticizing China's President Xi with whom he claims a close relationship.

The coronavirus pandemic originating in China has scrambled everything. The global economy has been badly shaken. Economists estimate that China's economy will barely grow if at all in 2020, the lowest rate of growth since 1972. The U.S. economy is estimated to shrink 4 to 5 percent. It is quite unlikely that China's demand for raw materials including soybeans, grains and crude oil among other commodities will reach 2017 levels.

At the same time tensions are rising over China's establishing a military presence on disputed small islands in the South China Sea claimed by other countries in the region. U.S. naval vessels have been sailing through these disputed waters to defend freedom of navigation, and this has provoked encounters with Chinese gun boats.

All in all, U.S.-China relations are deteriorating and seem likely to get worse. The Phase One agreement could become a pawn in a larger dispute since China and the U.S. both have the right to pull out of it. A further complication, as if more are needed, is the U.S. presidential election in November. President Trump cannot afford to appear weak in dealing with China, nor can he afford to do anything that harms whatever nascent U.S. economic recovery is underway in November. The Chinese may see the Phase One agreement as giving them considerable leverage in the short term.

With all of these various factors in play, U.S. farmers hoping China will put a floor under grain and soy prices had better keep their fingers crossed.

WPI INTERNATIONAL ANALYSIS

Middle East, Mediterranean and Africa Regional Analysis (MEA) - 5 May

By WPI Staff

Egypt reports that local wheat purchases by the government are now at 1.0 MMT well on the way to the target of 3.6 MMT. However, local press says that purchases are actually closer to 600,000 MT.

Coronavirus restrictions in Egypt do not affect farmers, as they are exempt, so farmers are working flat out, day and night, to harvest the wheat crop as quickly as possible. An added complication for farmers is that this month, the main harvest month, is also the month of Ramadan, a time of sunrise to sunset fasting, which makes the harvest efforts more difficult.

Egypt set up the Agricultural Solidarity Fund (ASF) in 2014 that was designed to support farmers through times of natural disasters – floods, storms, insects, diseases, etc. – but the ASF has never been put into practice. Recent serious storms in Egypt that badly damaged wheat crops in some areas has brought the idea of the ASF back to the forefront. However, since the ASF requires approval by the parliament and the parliamentary agenda "is already packed" it is unlikely that farmers will see any benefit from the ASF in 2020.

Egypt has lowered Suez Canal fees due to a drop in traffic in the canal as some ships are taking the longer but cheaper route around the Cape of Good Hope at the foot of Africa. Reductions in fees are being based on the origin/destination of the cargo with some discounts as high as 75 percent for eastbound cargos from North America. The reduced rates are in place to the end of June.

There are reports in Pakistan about serious outbreaks of desert locusts – the locust swarms are said to have moved from Iran into Pakistan. The Pakistan wheat harvest is reported to be about 50 percent completed but the balance is still vulnerable to the locusts. The government staff in the infected areas say that they are not currently able to spray the crops to stop the locusts from spreading.

Pakistan is still trying to reduce its wheat stocks from 6 MMT to 2 MMT by 2021 in order to meet the requirements of the World Bank for a $300 million loan package. However, progress is being made as wheat stocks at the end of April are reported to be at 4.5 MMT. The World Bank is looking for major changes in the wheat system in Pakistan with an eye toward the government getting out of the wheat procurement and distribution business and focusing on just maintaining a wheat reserve stock. Needless to say, there are many concerns in Pakistan with any major changes to the wheat system.

Pakistan's wheat production for 2020/21 is expected to reach 25.7 MMT with corn production at 7.0 MMT. Pakistan imports very little wheat or corn but is expected to be able to export about 300,000 MT of wheat. All estimates are from the USDA-FAS.

Iran is reported to be slowly and selectively increasing the price of bread in the country. Some parts of Iran say that bread prices have crept up by 50 percent. Bread prices in Iran have been largely unchanged for the past five years. Local officials in parts of Iran have said that there has been no increase in price, although an increase was being planned, with prices being held steady, they say, due to the coronavirus situation.

The FAO released reports this week for Morocco, Algeria and Tunisia, showing the following:

	Wheat Production	% change 5-year avg	Corn Production	% change	Barley Production	% change
Morocco	3,000,000	-49.0	50,000	-22.0	900,000	-57.2
Algeria	3,600,000	+16.10	000		1,200,000	-12.8
Tunisia	1,000,000	-8.6			500,000	+4.2
	Grain Imports	% change Versus 2019				
Morocco	9,400,000	+7.0				
Algeria	9,800,000	-28.5				
Tunisia	3,800,000	+22.5				

@USDA-FAS

Morocco's grain production is down due to very late and limited rains – the FAO mentions that Moroccan farmers left many wheat fields for animal grazing rather than harvesting the very poor crop.

Algeria's wheat areas had good rain at the right time this year, but barley was affected by a lack of rain in its growing area.

Tunisia had a smaller grain planting in late 2019 due to low ground moisture and the eventual rainfall coming too late for some planting.

Russia has donated $10 million to the FAO to help the fight against desert locusts in East Africa. The FAO is looking for donations of another $40 million to reach their target for the desert locust control program, a target of $150 million.

The Grain Millers Association of Zimbabwe (GMAZ) has advised that they will not be increasing prices for maize meal until all the supply of subsidized maize from prior to the recent price increase has been fully utilized. The government of Zimbabwe has doubled the price of maize to millers. The GMAZ has also said that it is in discussions with the government about the size of the price increase and the effect that this can have on the population.

Maize millers in Kenya are saying that the importation window for maize is too narrow and that allowing importation of up to 2 million 90 kg bags of maize at a reduced rate of duty from 20 April 20 - 30 May will not work. They say that the needed time to order and ship can easily go beyond the allowed time period for importation. The government has said that there will be no import extension as it could interfere with the local maize crop. Many millers are saying that they will not import as they risk falling beyond the date limit and having to pay the 50 percent duty rate rather than the reduced duty rate of 14 percent on white maize and 10 percent on yellow maize. The problem in Kenya could be that if there are no imports of maize the country could run out sometime in May or early June.

According to the USDA-FAS, Kenya's 2020/21 maize crop will be down by 800,000 MT to 3.0 MMT – maize imports will be pushed higher by 300,000 MT to 1.2 MMT but overall, the maize available in Kenya will drop by 500,000 MT. Much of the drop in the maize crop is due to coronavirus related restrictions which have cut available labor and farm inputs. Kenya depends on imports for most of its wheat supply – local production is only about 300,000 MT while wheat imports for 2020/21 are expected to be at 2.0 MMT, about the five-year average.

South Africa's Crop Estimates Committee (CEC) has issued its latest crop forecasts and has increased the 2020 maize crop by 2.78 percent from the last forecast to 15.22 MMT: 8.78 MMT white maize and 6.44 MMT yellow maize. Sorghum too has been increased to 139,000 MT, up by 4.6 percent. Soybean production is increased by about 1.7 percent to 1.29 MMT.

Compared to last year, the maize crop is up by 35 percent with sorghum up by 9 percent and soybeans up by 10 percent. Planting intentions for wheat show 2020 to be down by about 8.3 percent - the planting area for wheat is about 80 percent less than that for maize. Wheat is a much less important food/feed crop in South Africa than maize.

The FAO expects that South Africa's maize crop could reach as high as 15.8 MMT with exports reaching around 2.3 MMT. Most of the maize exports will be to neighboring countries with Zimbabwe expected to be the major importer. The numbers from the FAO have maize production up by 34 percent to 15.8 MMT, wheat production up by almost 9 percent to 1.64 MMT and barley up 20 percent to 355,000 MT.

The USDA-FAS reports that South Africa's maize exports for 2019/20 (12 months to 30 April) are at 1.42 MMT – 1.02 MMT white maize

and 400,000 MT yellow maize. All the exports of white maize are to African countries with Zimbabwe being the largest destination at 259,000 MT followed by Botswana at 192,000 MT, Namibia at 175,000 MT and Mozambique at 159,000 MT. For the 2020/21 year, beginning 1 May, maize exports are expected to reach 2.2 MMT.

Tanzania is expected to harvest about 6.3 MMT of maize in 2020/21, according to the USDA-FAS, which is just about average. Exports of maize should be at 300,000 MT which is up by about 100,000 MT. Ending stocks of maize are expected to reach 1.35 MMT which too is about the normal average level for Tanzania. The country grows very little wheat, less than 100,000 MT, so will have to import about 1.15 MMT, up slightly from last year.

Zambia was the focus of an FAO report this week – maize production is expected to be up by 47 percent to 3.0 MMT with wheat up by 12 percent to 170,000 MT. The country is currently harvesting its maize crop and there is a great deal of concern that coronavirus restrictions may restrict the availability of maize in local markets and risk higher post-harvest crop losses for farmers due to limited or poor storage facilities. The FAO also reports that maize prices are at record high levels but with coronavirus restrictions could continue to move higher.

Maize millers in Uganda are reporting that they are carrying large stocks of maize meal due to the coronavirus lockdown in the country. Not only are buyers not able to get to the shops but, due to the lockdown, most people are not able to work so they do not have the money to buy as much maize meal as in the past.

Millers have said that they expected Uganda's "Task Force on COVID-19" to buy maize meal for distribution but that this has not happened. Many millers report that they have cut back on production of maize meal.

China In-Country Analysis - 6 May

By Global Agribusiness Partners

Politics

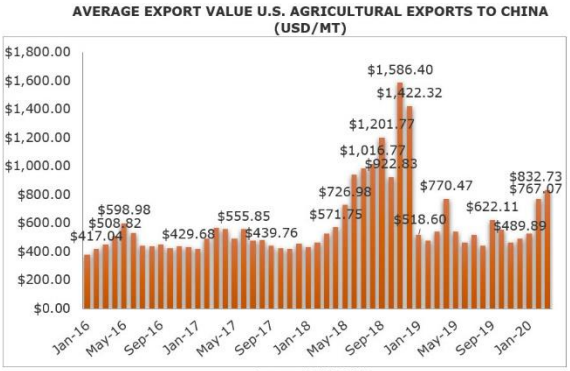
The Danger of Hot Rhetoric and Conspiracy Theories

With President Trump and Secretary of State Mike Pompeo continuing to place blame on China for the novel coronavirus, the Phase One trade deal could be put in jeopardy. Secretary Pompeo's recent television appearances where he has continued to insist the U.S. intelligence community has evidence that the novel coronavirus pandemic began as result of a well-known Wuhan infectious disease laboratory's problematic risk management controls has been met with pushback from allies and infectious disease experts.

For its part, China's leadership and general public view this as another instance of cultural disrespect and a belittling of Asian people. President Xi Jinping, who has long vowed to fight for equal recognition of China's self-determination internationally and to throw-off the yolk of western neo-colonialism, will assuredly respond in-kind. Today, the *South China Morning Post* reports that Beijing is considering cutting its holdings of U.S. debt, particularly if Washington seeks to penalize the country for the COVID-19 outbreak by cancelling its repayment obligations. A movement in either direction would imperil the Phase One commitments from China and likely scuttle future negotiations.

With USDA's first quarter export data out today, U.S. agricultural exports while down sharply from a year ago had several silver linings that bode well for the future. With a total volume of 4.55 MMT of agricultural products valued at $2.93 billion, the total tonnage was down year-on-year by 938,583.30 MT (-17.1 percent). Interestingly, however, the total value for the first three months of 2020 is up by $150.56 million (+5.4 percent) from a year ago. This translated into an average export value of $644.33/MT, up $137.58/MT (+27.2 percent) from the first quarter of 2019.

Key drivers for this significant value increase have been sales of beef, poultry, and pork, as well as tree nuts. The average export values of hay have also recovered nicely. Moreover, all of this has occurred while China suffered its first negative quarter going back to the early 1990s. With Beijing looking to invest upwards of $400 billion in new infrastructure to offset the pandemic induced economic crisis, the U.S. will need that locomotive to pull the farm economy out of the doldrums.



Source: USDA GATS

Livestock

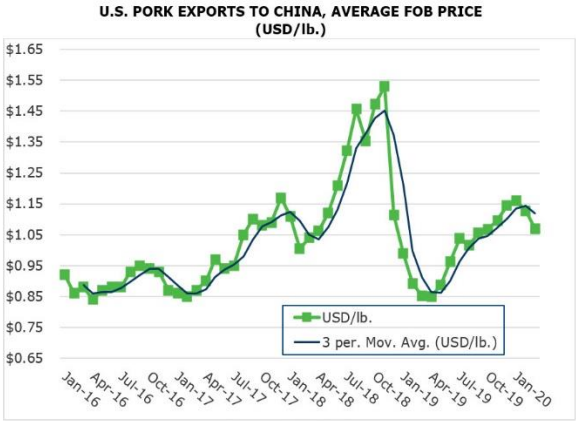
U.S. Meat Exports Enjoy Outstanding First Quarter

U.S. shipments of pork and pork related products led the way for the first three months of 2020. For the third straight month, the total tonnage surpassed the 90,000 MT mark as March figures amounted to 95,892.10 MT worth $226.3 million. That compares to just 27,478.80 MT valued at $51.61 million for March 2019. Together, shipments through the first quarter of this year total 280,506.60 MT with a total value of $691.87 million for an average value of $1.12/lb.

In contrast, the first quarter totals for 2019 were just 69,469.50 MT worth $138.20 million with an average value of $1.14/lb. Through 23 April, U.S. exports of fresh, chilled, or frozen cuts of pork meat have averaged 18,422 MT, while new net sales have averaged 34,945 MT. Thus, the pork shipments should actually continue to rise and will likely top 100,000 MT for April.

Beef exports by comparison have been significantly smaller in tonnage, but the average price per pound continues to increase and volume has been steady. For March, U.S. beef shipments to China amounted to just under 480 MT with a total value of $3.85 million. That compares to 425.2 MT worth $3.22 million for March 2019. The March figures resulted in first quarter 2020 totals of 1,888.30 MT with a combined value of $14.22 million. That translates into year-on-year increases in tonnage and value of 208.3 MT (+12.4 percent) and $1.07 million (+8.0 percent).

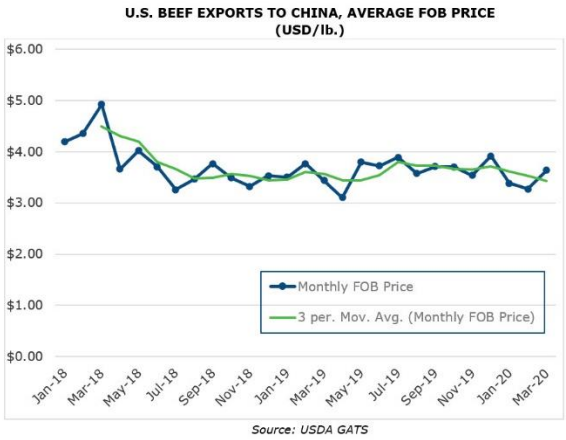
Weekly exports of fresh, chilled, or frozen beef muscle cuts for the first four weeks of April have averaged 302 MT, while new net sales have averaged 1,078 MT. This means that April tonnages will likely approach 1,500 MT, which would be the best month for U.S. beef exports to China since market access was restored.



Source: USDA GATS

Meanwhile, U.S. poultry and poultry product exports to China had their best month going back to 2014, the last full year of activity before avian influenza ban. For March, total volume amounted to 27,567.80 MT with a value of $41.52 million. Those figures represent nearly a doubling from February totals. Frozen paws and feet accounted for 64 percent of the total value for March and 47.5 percent of the volume. By comparison, frozen chicken meat including legs and wings totaled 13,224 MT in March with an export value of $13.22 million. Meanwhile, frozen turkey and offal shipments were 1,061 MT worth $1.75 million. For the entire first quarter of 2020, the U.S. shipped 49,076 MT of poultry meat and products with a combined value of $74.77 million. Frozen chicken meat parts have amounted to 9,974 MT valued at $10.63 million,

while frozen turkey and offal have totaled 2,709 MT worth $4.08 million.



Chin China's Live Hog and Pork Prices May Begin to Recover Soon

As noted last week, the Director of Development Planning for China's Ministry of Agriculture and Rural Affairs (MARA) recently discussed the 2.5 months-long downward price trends. One reason for this post-Chinese New Year's swoon has been the fact that a number of farmers did not sell their pigs prior to the holiday, likely as a result of the lockdown. In addition, the central government has conducted 16 auctions of reserved frozen pork since January and imports have reached record highs.

On the demand side, the closing of schools, restaurants, hotels, and workplace cafeterias really dented demand. According to the Ministry of Commerce, the nation's restaurant revenues declined by more than 44 percent in the first quarter compared with last year.

Consumption has also suffered from the exorbitant high prices caused by African Swine Fever (ASF) crisis. Nonetheless, as China has moved to reopen its economy nationwide, the demand outlook is beginning to shift toward the bullish side of the ledger as consumption from restaurants, schools, and large organizations should provide a powerful mechanism to pull the market forward.

Oilseeds

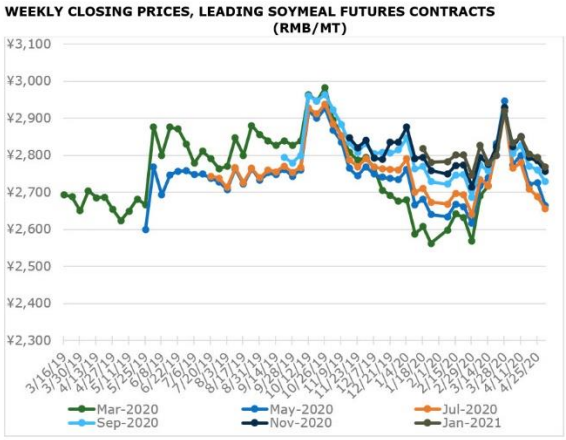
Soymeal Futures Tumble on Lower Price Outlook

The May Labor Day holiday in China, which runs from the first through the fifth, has limited cash market data availability. The Dalian Commodity Exchange weekly pricing through last Saturday, however, provides a good measure of market sentiment. The May 2020 contract edged down RMB 48/MT ($6.80/MT) from the previous week's settlement price to close at RMB 2,664/MT ($377.34/MT).

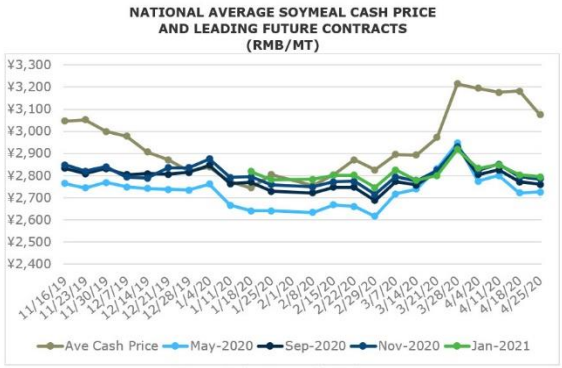
Similarly, the September 2020 and the January 2021 contracts fell by RMB 32/MT ($4.53/MT) and RMB 31/MT ($4.39/MT) to close at RMB 2,729/MT ($386.54/MT) and RMB 2,768/MT ($392.07/MT), respectively. For the month of April, the total traded volume of soymeal contracts amounted to 25.5 million, up 37.8 percent year-on-year but down 36.7 percent from March.

Total turnover for April was RMB 713.09 billion ($101 billion), an increase of 48.5 percent from April 2019, but a decrease of 37.1 percent from this past March. Finally, open interest at the end of April stood at 2.19 million contracts, up 66.7 percent from a year ago and down nearly 15 percent from the end of March.

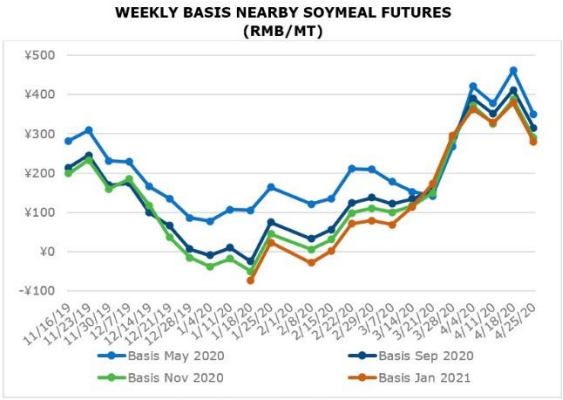
Through the end of April, the basis for the most heavily traded soymeal futures fell sharply during the last full week of the month. As of 25 April, the basis for the May 2020, September 2020, and January 2021 contracts had dropped to RMB 349/MT ($49.36/MT), RMB 315/MT ($44.55/MT) and RMB 280/MT ($39.60/MT), respectively. These represented weekly decreases of RMB 112/MT ($15.84/MT), RMB 96/MT ($13.58/MT), and RMB 99/MT ($14.00/MT), respectively.



Source: Dalian Commodity Exchange



Source: Dalian Commodity Exchange

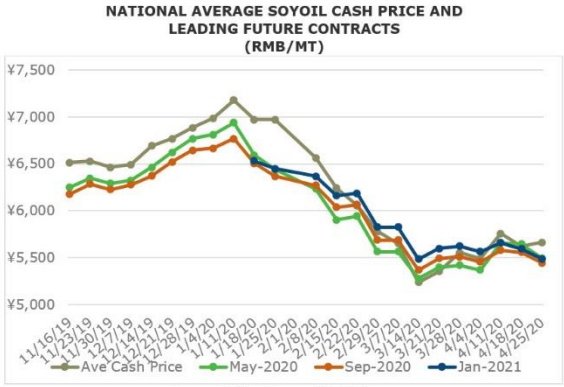


Source: Dalian Commodity Exchange

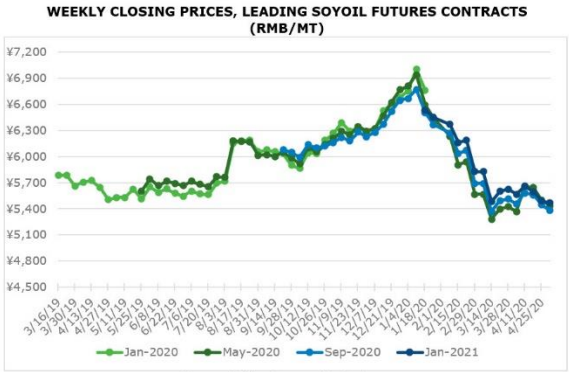
Soyoil Futures See Another Significant Decrease

Soybean futures fell for the third straight week. The May 2020 contract closed last week at RMB 5,436/MT ($767.80/MT), down RMB 60/MT ($8.50/MT) from the previous week's settled price. By comparison, the September 2020 and January 2021 contracts declined by RMB 84/MT ($11.90/MT) and RMB 40/MT ($5.65/MT) to close the week at RMB 5,378/MT ($761.76/MT) and RMB 5,466/MT ($774.22/MT), respectively. Trading volume for the month of April reached nearly 9.70 million contracts, up 128.8 percent from April 2019 but down 33.2 percent from March. Turnover totaled RMB 533.12 billion ($75.51 billion), an increase of 128.8 percent from April 2019 and a decrease of 32.9 percent from March. Open interest at the end of April totaled 505,462 contracts, an uptick of 10.7 percent from a year ago and a drop of 17.9 percent from the previous month.

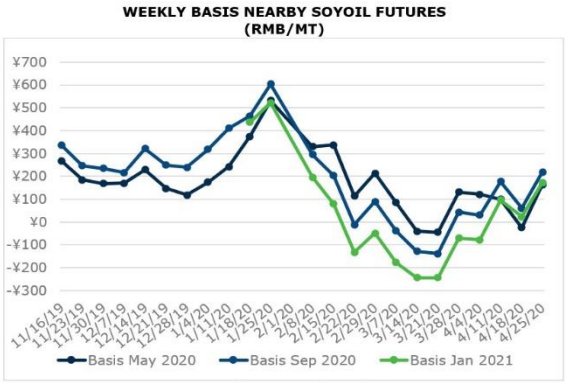
With the big price swings in soyoil, basis with the nearby contracts over the past month has had some significant weekly swings. Through the last full week of April, basis for the nearby contracts of May, September, and January of next year amounted to RMB 165/MT ($23.34/MT), RMB 219/MT ($30.98/MT), and RMB 173/MT ($24.47/MT), respectively. That translated into a week-on-week change for the May, September, and January 2021 contracts of RMB 190/MT ($26.87/MT), RMB 158/MT ($22.35/MT), and RMB 150/MT ($21.22/MT), respectively.



Source: Dalian Commodity Exchange



Source: Dalian Commodity Exchange



Source: Dalian Commodity Exchange

Grains

Corn Prices May Be Nearing Their Peak, Tolls Subsidy Set to Expire

China's Ministry of Transport announced it will restore all tolls nationwide, including highways, bridges and tunnels, beginning on 6 May. This comes after the central government had exempted vehicles from tolls since 17 February due to COVID-19. Although transport cost is not the most significant factor affecting domestic corn prices, it may signal the corn market will near a peak later this month. The average corn price increased in April by nearly RMB 100/MT ($14.16/MT).

A recent industry survey pointed to the potential price impact for corn as result of the removal of the toll subsidy. A total of 462 truckloads of domestic corn were shipped from Northeast suppliers to major processors in Shandong Province on 30 April, a growth of 249 trucks from the previous day. This suggests traders were rushing to get rid of their corn inventories at high prices prior to the policy change. It is estimated that the Ministry of Transport's announcement may drive up the average truck cost from Jilin province to Shandong from RMB 50/MT ($7.08/MT) to RMB 190-200/MT ($26.91-28.33/MT). From this standpoint, corn prices should see a correction later this month.

In addition, prices for corn byproducts have lagged behind those for corn. The average utilization rate of cornstarch producers declined to 79.4 percent through the last week of April from 85.3 percent in the first week of the month, pointing to the deep processing industries desire to protect operating margins as they have likely reached their limit in passing on the higher input prices to consumers of corn byproducts.

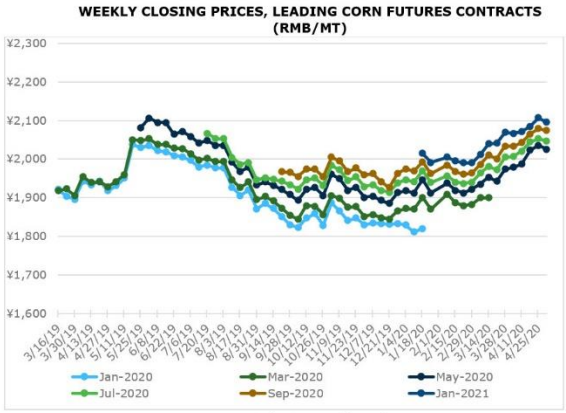
Lastly, although official data shows that China's livestock industry has been recovering, live pig and reproductive sow inventories for the first quarter of 2020, according to MARA, are up year-on-year by just 3.5 percent and 9.8 percent, respectively. While that growth is welcomed after the literal killing fields of spring 2019, it is not enough to contribute to the recent hike in corn prices or sustain them going forward. From the perspectives of market supply and demand, corn price support from downstream demand is relatively limited, and corn supplies in storage in the Northeast are quite high.

Corn Futures See Modest Decreases as Market Outlook Shifts

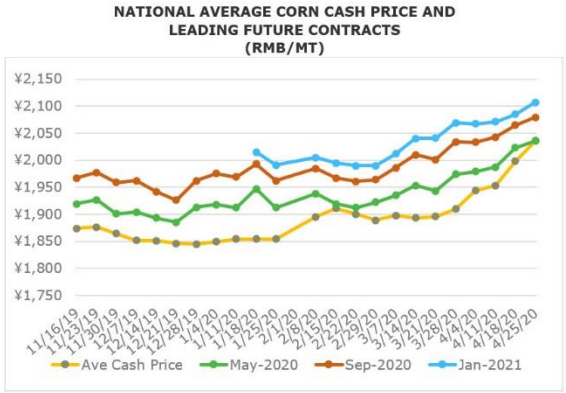
The May 2020 contract ended last week at RMB 2,026/MT ($286.97/MT), down RMB 13/MT ($1.84/MT) from the settled price for the week prior. The September contract saw a smaller weekly decrease as it ticked down from the previous week's settlement price by RMB 7/MT ($.99/MT) to close at RMB 2,074/MT ($293.77/MT). The January 2021 contract fell by RMB 12/MT ($1.70/MT) to finish last week at RMB 2,096/MT ($296.88/MT). Monthly trading volume fell by 21 percent in April to 9.6 million contracts, which was up just modestly from April 2019 by 1.6 percent. Turnover for April totaled RMB 197.83 billion ($28.02 billion), which is up year-on-year from April 2019 by 10.9 percent but down 18.3 percent from March. Open interest at the end of the month amounted to 1.08 million contracts, an uptick 6.3 percent from a year ago and a drop of 7.1 percent from the end of March.

Interestingly, basis with these three futures contracts continued to strengthen through the end of April. In fact, for the May contract, basis fell to zero for the week ended 25 April. For the September 2020 and January 2021 contracts, basis for the last full week of April amounted to a negative RMB 43/MT ($6.09/MT) and a negative RMB 71/MT ($10.06/MT), respectively. That equates to a weekly change for the May, September, and January 2021 contracts of RMB

25/MT ($3.54/MT), RMB 24/MT ($3.40/MT), and RMB 16/MT ($2.27/MT), respectively.



Source: Dalian Commodity Exchange



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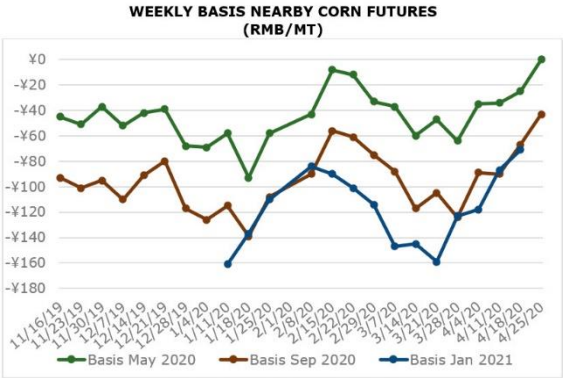
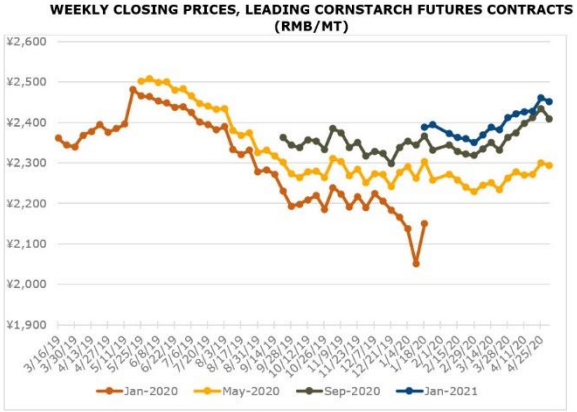


Source: Dalian Commodity Exchange

Leading Cornstarch Contracts See Reverse of Fortunes

The May 2020 contract closed last Saturday at RMB 2,294/MT ($326.32/MT), down RMB 7/MT ($.99/MT) from the settlement price two weeks ago. The September 2020 contract, the most heavily traded, had the biggest weekly drop, falling by RMB 31/MT ($4.39/MT) to close at RMB 2,357/MT ($333.85/MT).

Lastly, the January 2021 contract dropped last week by RMB 10/MT ($1.42/MT) to RMB 2,452/MT ($347.31/MT). Total trading volume for April was up year-on-year by 7.3 percent to 1.52 million contracts. That total is down 2.4 percent from March. Monthly turnover totaled RMB 35.98 billion ($5.10 billion), up 9.1 percent from April 2019 and 2.3 percent from this past March. Open interest at the end of April fell to 83,065 contracts, down 5.9 percent from April 2019 and 13.8 percent from March.



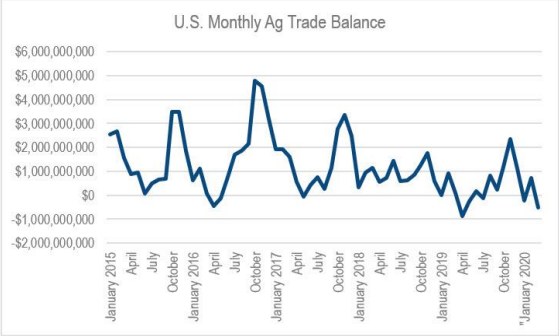
Source: Dalian Commodity Exchange

WPI POLICY ANALYSIS

U.S. Ag Trade Deficit and Meat Outlook – 5 May

By Dave Juday

According to USDA's latest agricultural trade data, the overall ag trade balance in March was negative. The U.S. ran a trade deficit of $502 million for the month, based on exports of $11.885 billion and imports of $12.386 billion. That is only the sixth time in the past 63 months, but second time in 2020 and the fourth time in the past 12 months



Source: USDA, WPI

The trade data come at a particularly significant time as there are commodity surpluses in the U.S., exacerbated by the COVID-19 situation, but also looming food shortages particularly in the protein sector.

A number of major retailers are moving to place limits on consumers' purchases of beef, pork, and poultry, and Brazilian and Australian packers are eyeing the retail shortages as a way to enter the U.S. market. As part of its COVID-19 relief efforts, Australia is subsidizing airfreight costs for exports; 16 percent of the country's total exports are beef.

With the U.S. red meat packing plants reopening, production will start to tick upwards through May, but likely with a ceiling of about 80 percent of capacity due to new distance requirements on production lines, and more worker absenteeism. Total production won't likely rebound until late Q3 or into Q4 2020. By then, it is unclear what food service demand will be however as diner behavior and economic stability is uncertain, and it is further unclear how the restaurant industry will weather the COVID-19 lockdown structurally.

Looking at the Commerce Department reports, total food service sales in March were down about $15 billion while grocery sales were up about $16 billion. April's numbers (which will be released on 15 May) will show a decrease in the panic-buying induced bump on the grocery side in March as well as a further drop on the food service side. But, the new restrictions on meat purchases may drive retail values higher. We have heard unconfirmed reports that featuring of meat sales to date have continued irrespective of supply on hand, if so that is another potential area of the meat value chain to be looked at while the USDA and Justice Department are reviewing the sector.

Today, the Attorney Generals from 11 states (North Dakota, Colorado, Missouri, Montana, Arizona, Idaho, Iowa, Minnesota, Nebraska, South Dakota and Wyoming) wrote to the Justice Department asking for anti-trust investigations into the beef packing industry. Their call comes on top of several Congressional calls.

China Tea Leaves – 8 May

By Gary Blumenthal

Under the Phase One agreement, U.S. exports of goods to China this year were supposed to increase by 36.6 percent over the base year of 2017. Instead, they are down nearly 6 percent in the first four months of this year compared to 2019. U.S. agricultural exports to China were down 45 percent in the first quarter of this year

compared with the first quarter of 2017. Notably, sales to China of U.S. manufactured goods like vehicles are even further behind.

Interpreting the meaning of the two sides' statements below following a 7 May phone call does not sound encouraging.

Chinese Vice Premier Liu He: *The two sides agreed to: "create a favorable atmosphere and conditions" for the Phase One deal "and strive for positive outcomes."*

U.S. Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin: *"Both sides agreed that good progress is being made on creating the governmental infrastructures necessary to make the agreement a success. In spite of the current global health emergency, both countries fully expect to meet their obligations under the agreement in a timely manner."*

President Donald Trump*: "Look, I'm having a very hard time with China. I made a great trade deal months before this whole thing happened. And it was kicking in, you know, a month ago and starting to kick in and starting to produce and then this happens and it sort of overrides so much."*

Scott Kennedy at the Center for Strategic and International Studies sees four U.S. options:

1. Invoke the agreement's "bilateral evaluation and dispute resolution" process.
2. Enact penalties or possibly withdraw from the agreement.
3. Forego any complaint and allow China the remainder of the year to comply.

Scrap the non-market based quantitative trade targets and instead pursue China ending government-controlled economy

CFAP Direct Payment Details – 19 May

By Dave Juday

The Administration announced the details of the $16 billion COVID-19 relief direct payment program – the Coronavirus Food Assistance Program (CFAP). Sign up started 26 May and the checks will start hitting mailboxes within about two weeks.

The payment limit is $250,000 per producer – no per commodity limit. If there are two or three active partners, the limits are $500,000 and $750,000 respectively.

USDA will make an initial payment of 80 percent of an eligible 2020 CFAP participant's calculated payment. The initial payments are meant to provide quick cash flow assistance to those eligible and are at 80 percent to ensure that total payments do not exceed the $16 billion budget.

Recall that there are two pools of funds – that authorized under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and existing CCC authority. That bookkeeping makes the formula a little more circumspect.

CARES Act funds will be used to make a payment multiplying 50 percent of the eligible inventory by a pre-specified payment rate calculated as 50 percent of the calculated futures price decline. CCC funds will be used to make a payment to the producer by multiplying 50 percent of the eligible inventory by a 55 percent of the futures price drop. Despite the two calculations, only one check will be written.
The resulting payment rates are below:

CFAP Payment Rates		
Commodity	**CARES Act Rate**	**CCC Rate**
Corn (bu)	$0.32	$0.35
Soybeans (bu)	$0.45	$0.50
Sorghum (bu)	$0.30	$0.32
Wheat – Durum (bu)	$0.19	$0.20
Wheat – HRS (bu)	$0.18	$0.20
Canola (lb)	$0.01	$0.01

Source: USDA, WPI

The formula which yielded those is as follows:
The decline in the weekly average of the futures prices (or weekly average cash prices for crops with no futures price) between the week of 13-17 January compared to the short trading week of 6-9 April (with the markets closed on Good Friday). That delta is the only factor – not market ups, down or other dates.

The price decline calculation was based on May contracts quoted on the Chicago Board of Trade for all crops other than wheat and cotton. Wheat uses the May contract quoted on the Minneapolis Grain Exchange and upland cotton uses the May contract quoted on the Intercontinental Exchange.

Also, canola uses the May contract on the Intercontinental Exchange – but in Canadian dollars, converted to U.S. dollars. Sorghum is calculated as 95 percent of the corn futures price. Durum wheat is calculated as 103.4 percent of the hard red spring wheat futures price.

Eligible inventory is based on 15 January; it is calculated to be the lower of:

- Self-certified unpriced inventory that a producer has vested ownership in, or
- 50 percent of 2019 production

Livestock is a little more straight forward; payment will be made on the number of head sold between 15 January and 15 April, multiplied by the payment rates per head, and the highest level of inventory (in head) between 16 April and 14 May, multiplied by the per head payment rate.

CFAP Livestock Payment Rates		
Commodity	**CARES Act Rate**	**CCC Rate**
Fed Cattle >1,400 lbs	$214	$33
Feeders < 600 lbs	$102	$33
Feeders > 600 lbs	$139	$33
all other Cattle	$102	$33
Feeder pigs < 120 lbs	$28	$17
Hogs > 120 lbs	$18	$17

Source: USDA, WPI

A contract grower who does not own the livestock, will be considered a producer if the contract allows the grower to have risk in the livestock.


WORLD PERSPECTIVES
AT THE NEXUS OF POLICY & MARKETS