



U.S./China Market Update: Phase-1 Trade Agreement, Coronavirus, and ASF

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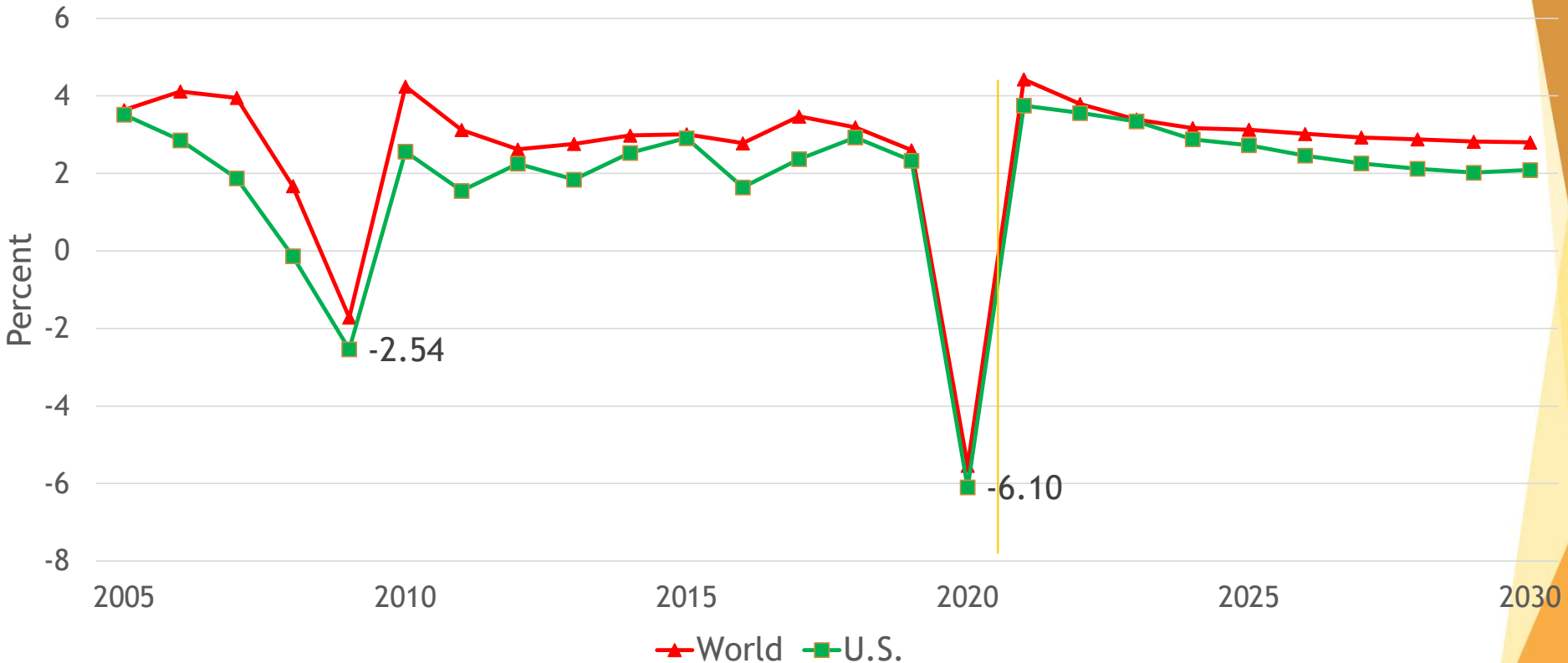
What is the Analog to COVID-19

duration remains unknown, so are the lingering impacts

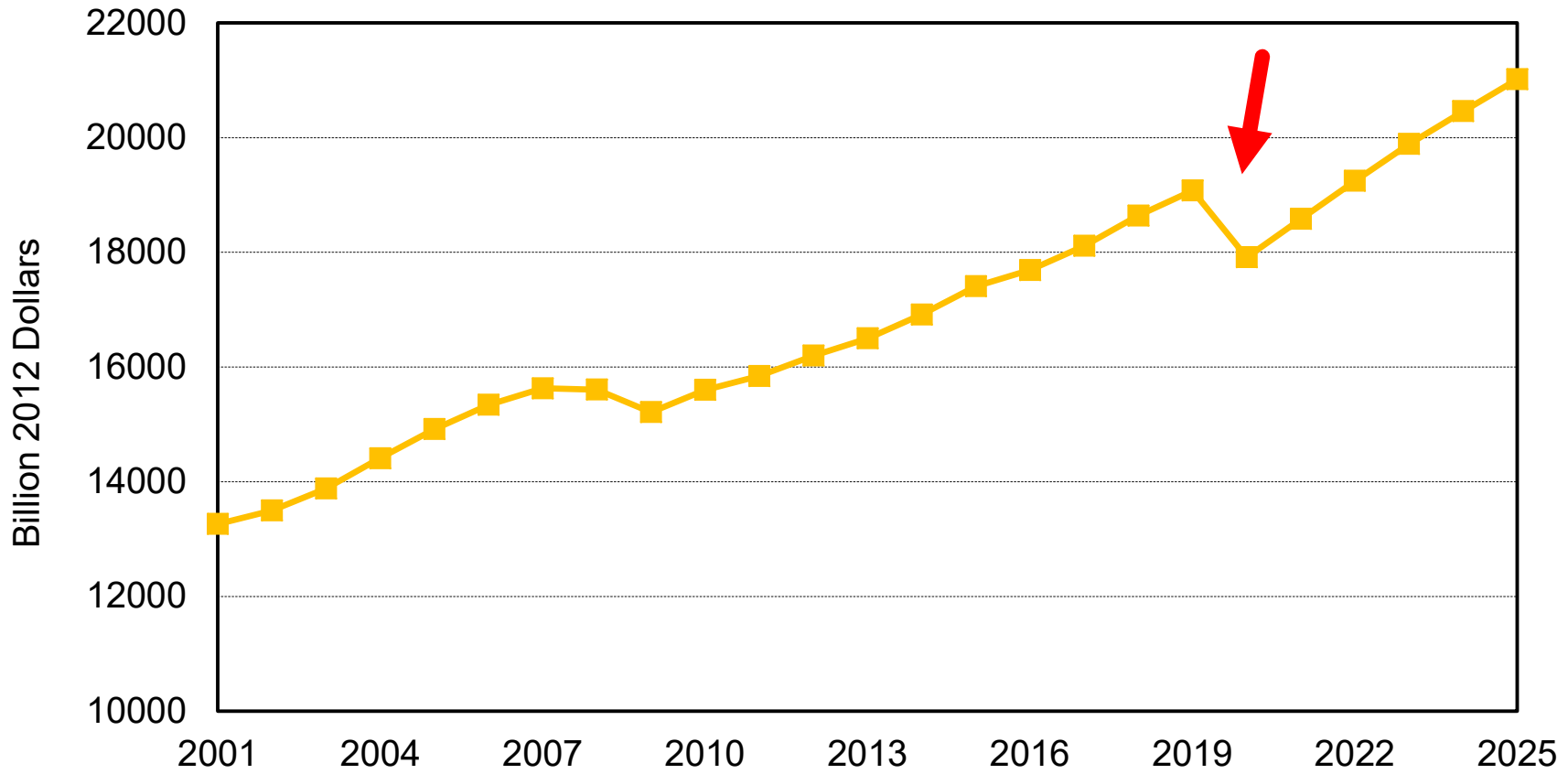
- ▶ A generous mix of ‘Holcomb, Kansas slaughter plant fire’ across several industries and.....
 - ▶ Supply chain disruptions increase the spread between producers and consumers
- ▶ + The great recession (?)
 - ▶ Housing bubble (~2006) -> Subprime Mortgage Crisis -> Banking Sector crisis -> Consumer Income (~2008)

Impacts really depend on the commodity

Real GDP growth

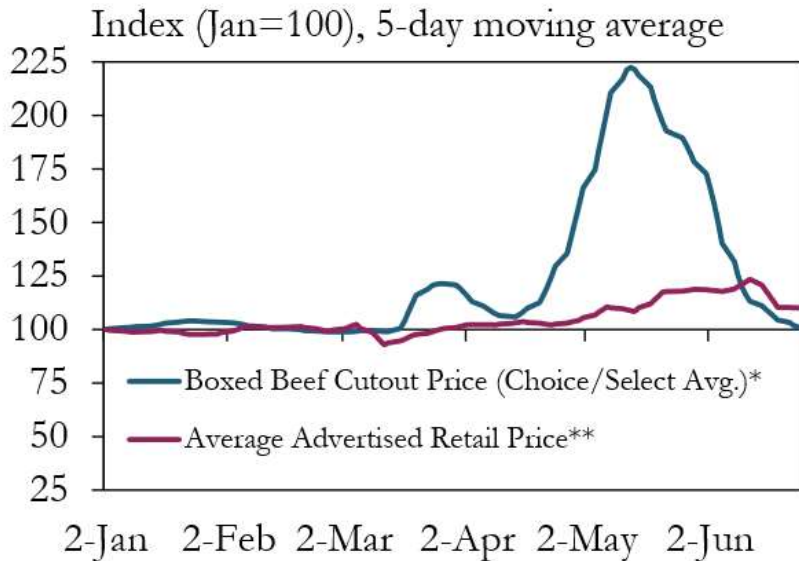


U.S. real GDP

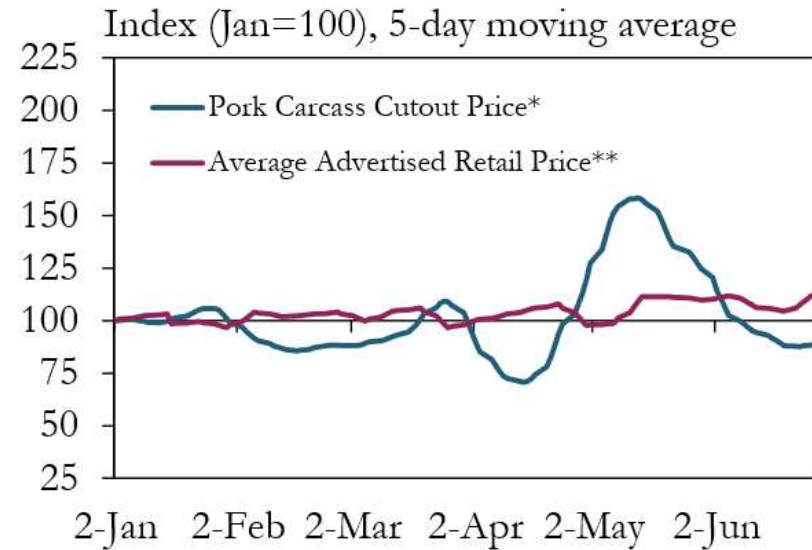


U.S. Meat Markets

Wholesale and Retail Beef



Wholesale and Retail Pork



*Beef: negotiated prices and volume of boxed beef cuts delivered within 0-21 days and on average industry cutting yields. Pork: negotiated prices and volume of pork cuts delivered within 14 days and on average industry cutting yields.

**Based on weekly national average of advertised prices, weighted based on carcass composition and interpolated to daily

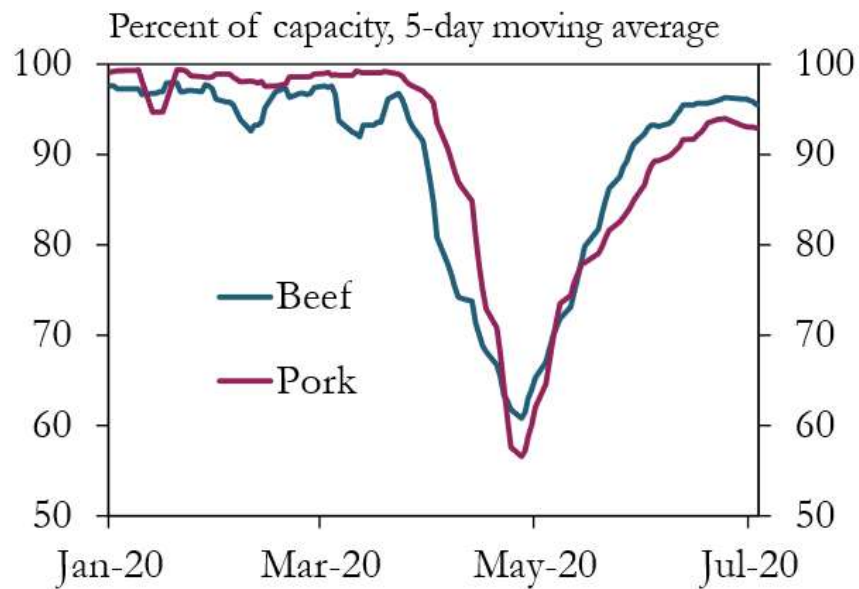
Note: Wholesale represented by reports of "National Daily Boxed Beef Cutout And Boxed Beef Cuts - Negotiated Sales" and "National Daily Pork Report FOB Plant - Negotiated Sales"

Sources: USDA and staff calculations.

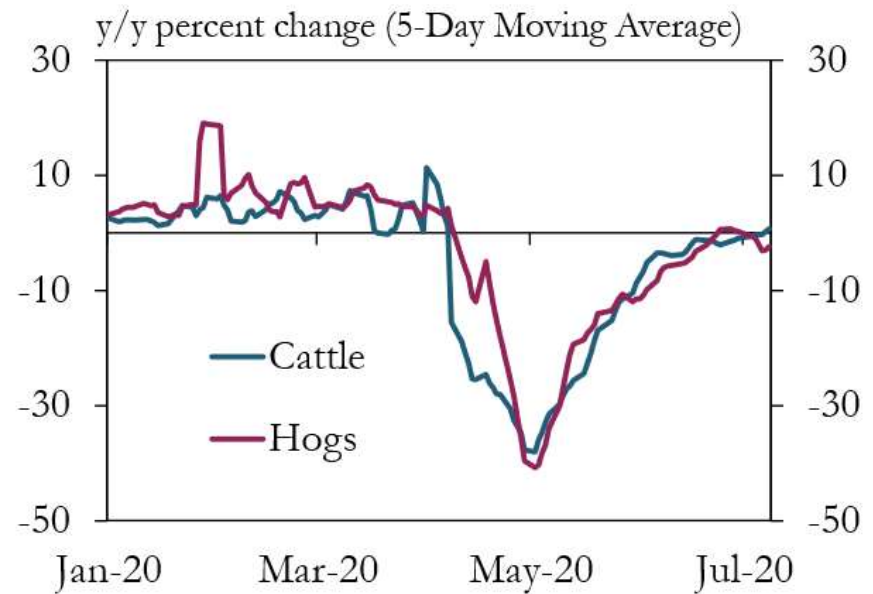
From the Kansas City Federal Reserve Bank

U.S. Beef and Pork Plant Capacity Utilization

U.S. Beef and Pork Plant Capacity Utilization



Daily Cattle and Hog Slaughter



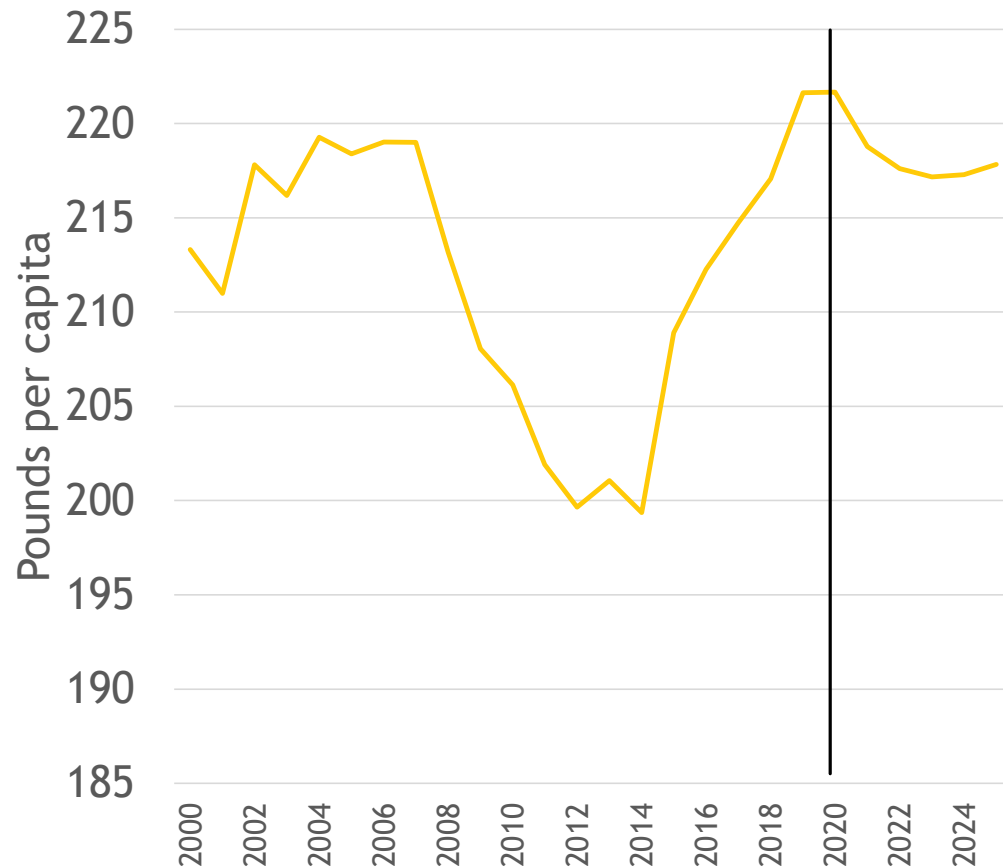
Note: Excludes weekend operations.

Sources: USDA, National Pork Board, and KC Fed Calculations.

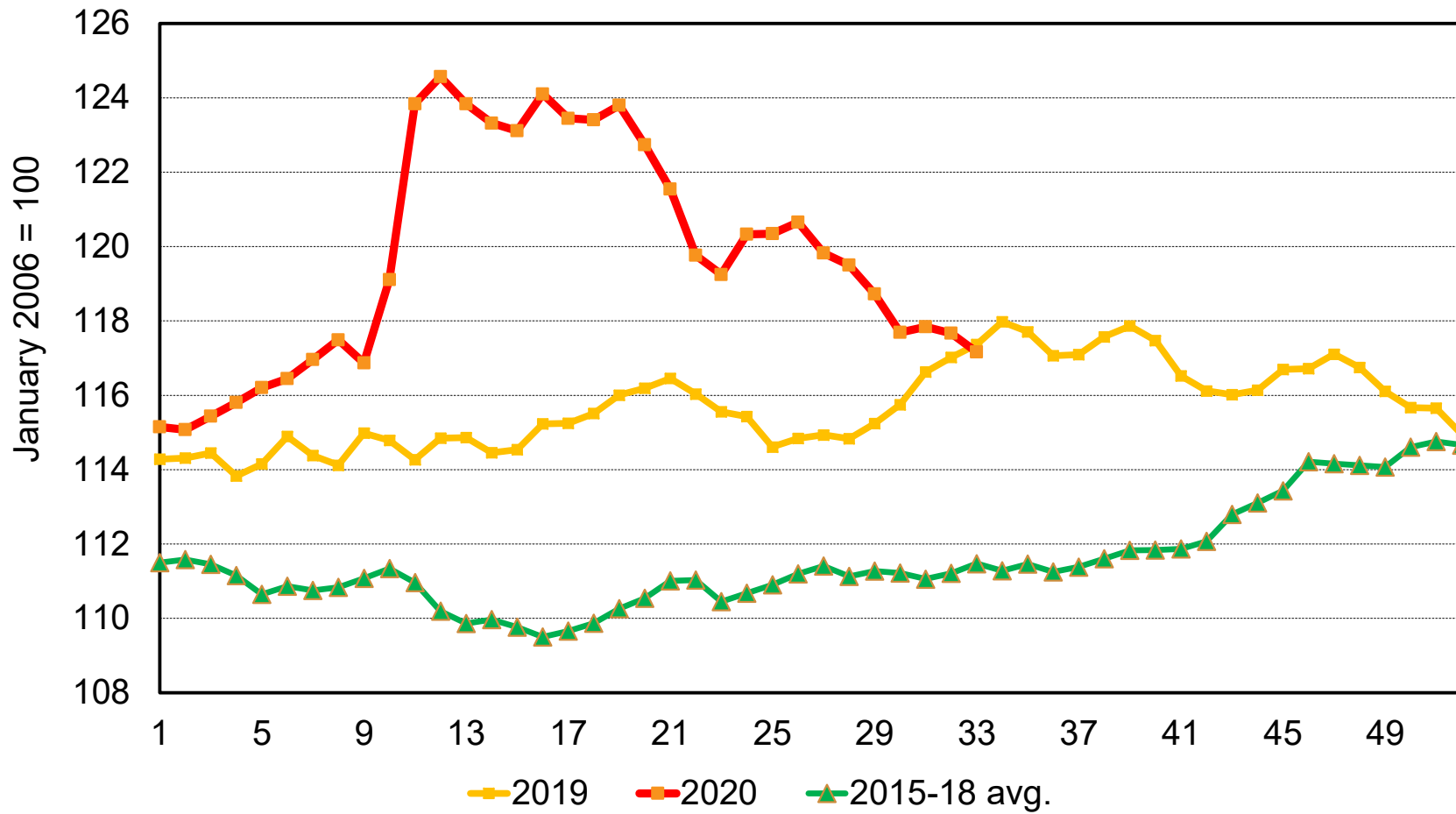
From the Kansas City Federal Reserve Bank

U.S. Per-Capita meat consumption

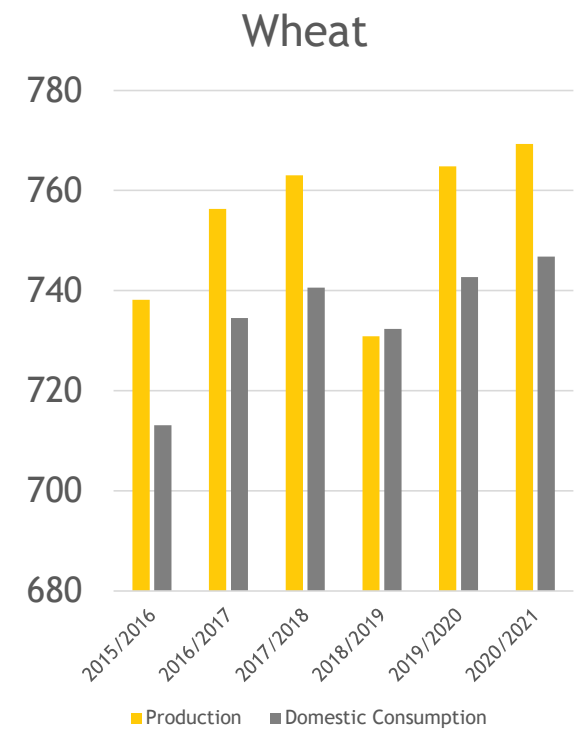
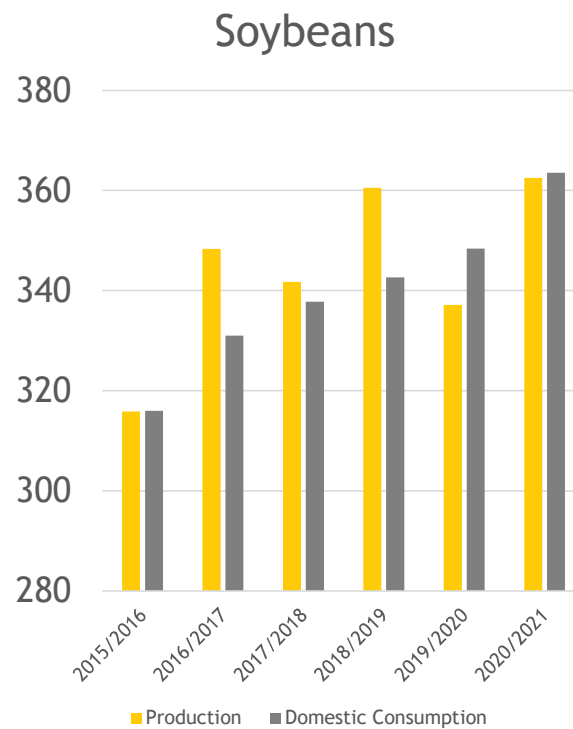
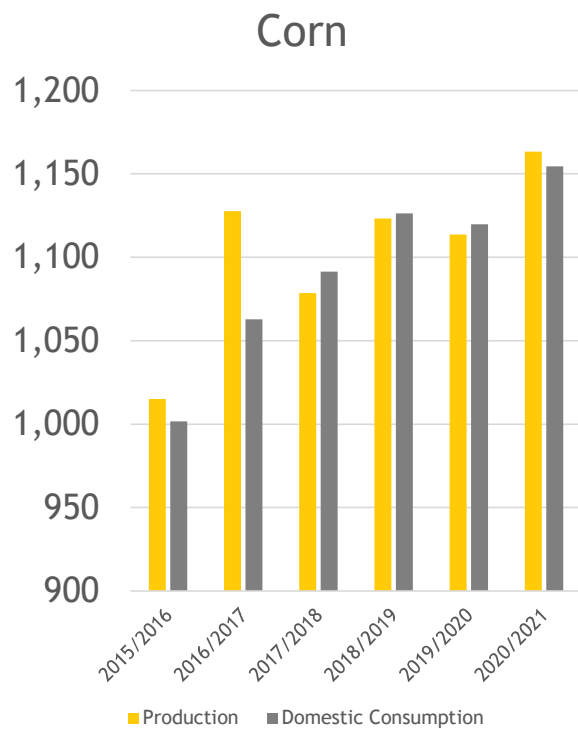
- ▶ The total amount of beef, pork, and poultry meat supplied to the domestic market in per-capita terms is projected to contract in 2021 and 2022 for the first time since 2014.
- ▶ Economic uncertainty will impede consumer spending for meat and dairy products.



Weekly Trade-Weighted U.S. Dollar Index

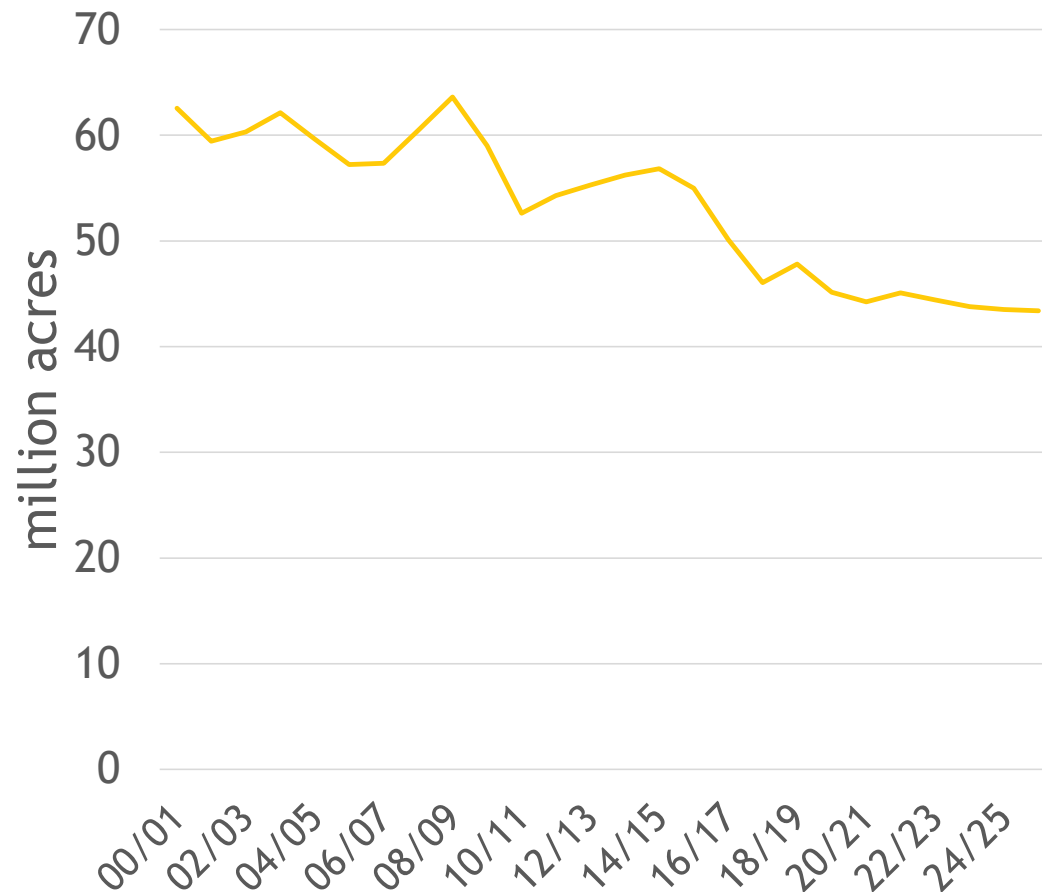


Crop supplies generally abundant across the globe



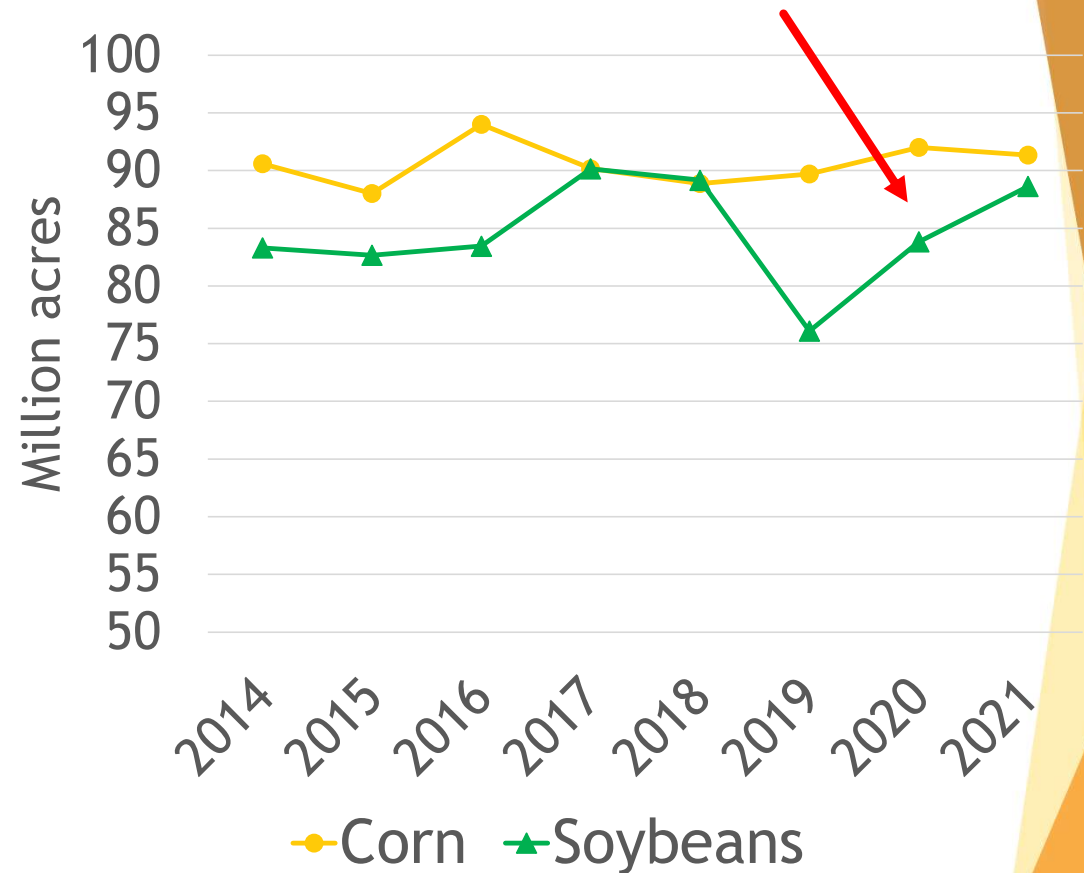
Wheat acres continue to decline in the U.S.

- ▶ Wheat acreage continues to decline - falling below 44 million acres - on relative returns to corn and soybeans.
- ▶ Wheat prices average about \$4.80 over the next several years on large global supplies and competition with corn.



Corn and soybean planted acreage

- ▶ Spring flooding sharply reduced 2019 area planted from what it would have been
- ▶ USDA reports a strong rebound in soybean acreage and smaller increase in corn acreage in 2020
- ▶ With normal spring weather and continued strong soybean prices vs. corn, 2021 could see soybean area near the levels of 2017 and 2018



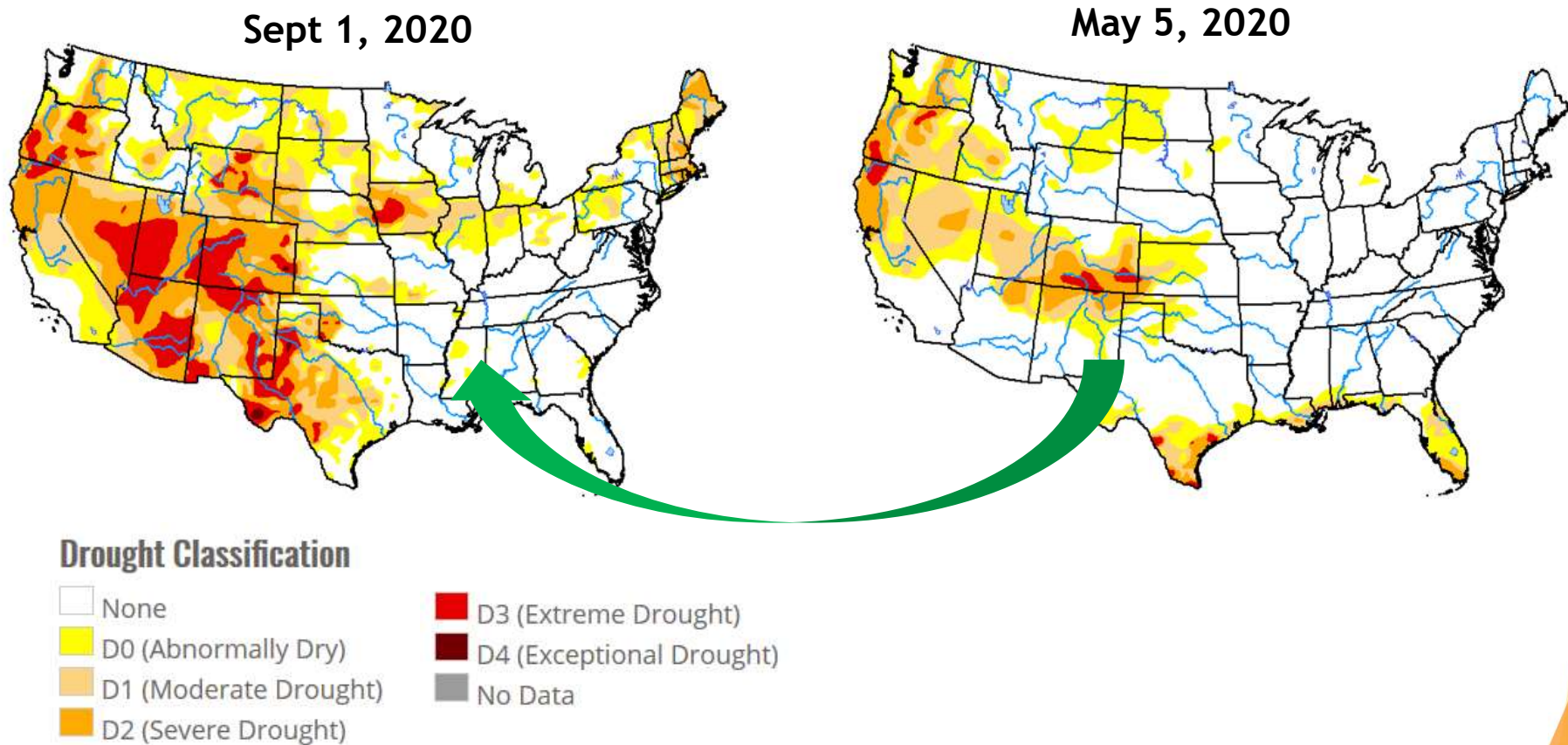
Source: FAPRI-MU baseline update, Aug. 2020

Derecho as seen by Short Aperture Radar (SAR)

Courtesy NASA Harvest (Nasaharvest.org)

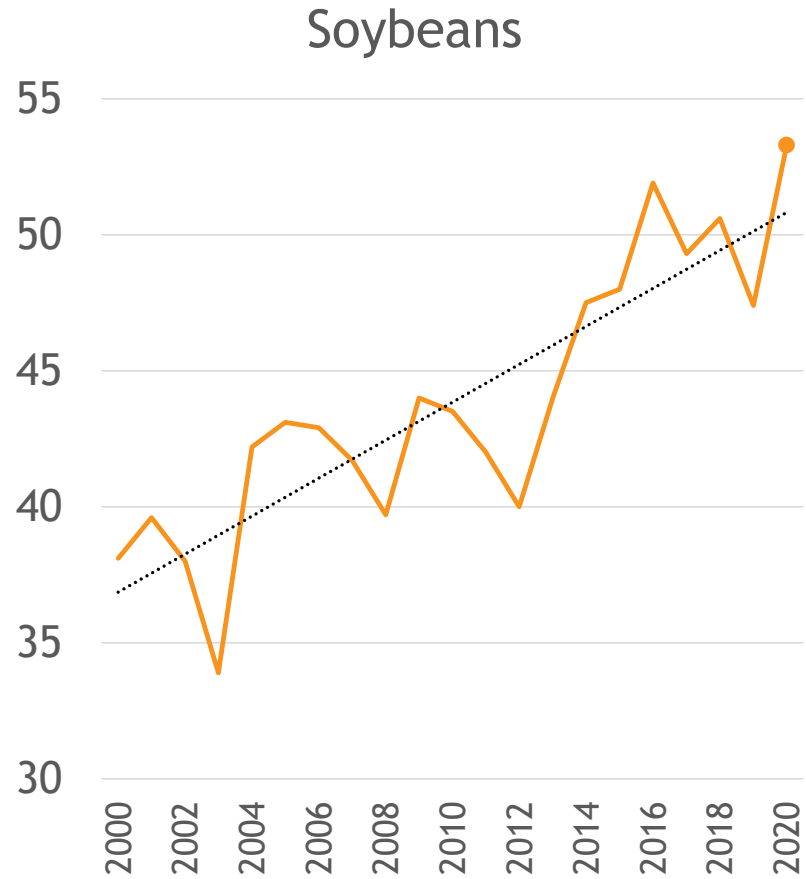
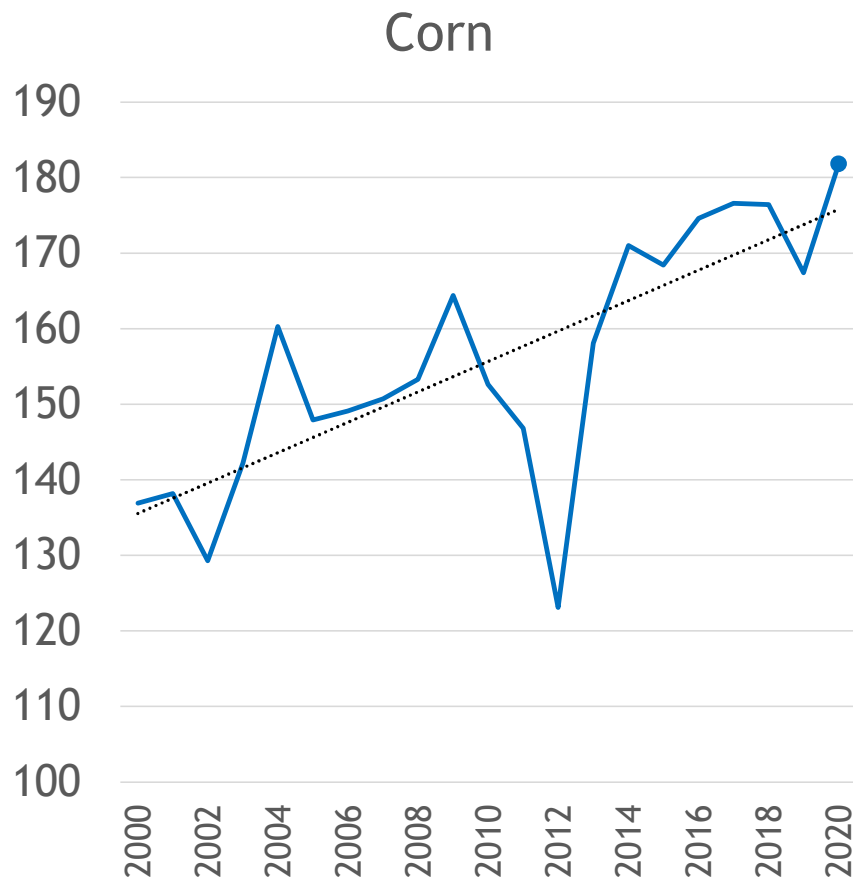


Drought/dry conditions expand across Iowa



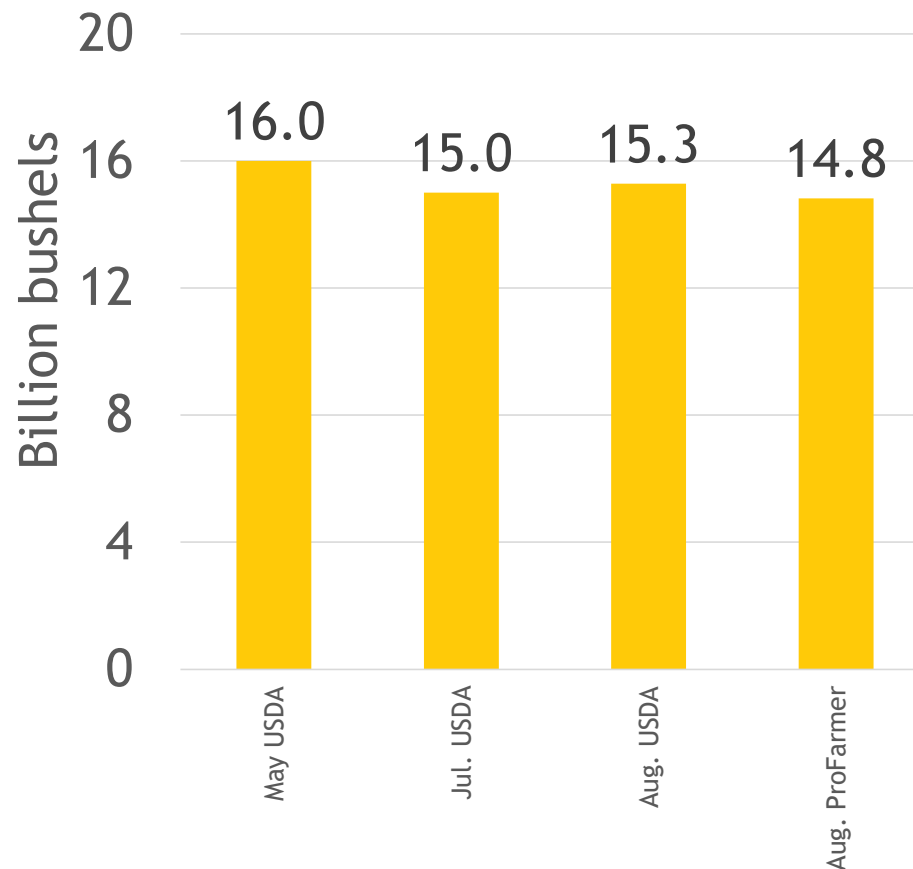
Potential record crop yields keeping price in check

bushels per acre, August Estimate



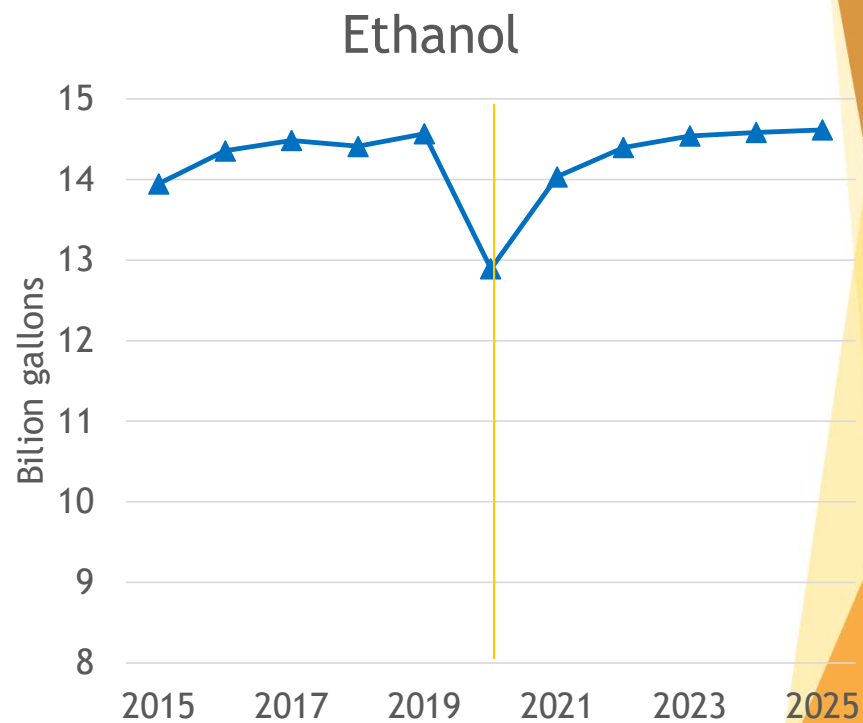
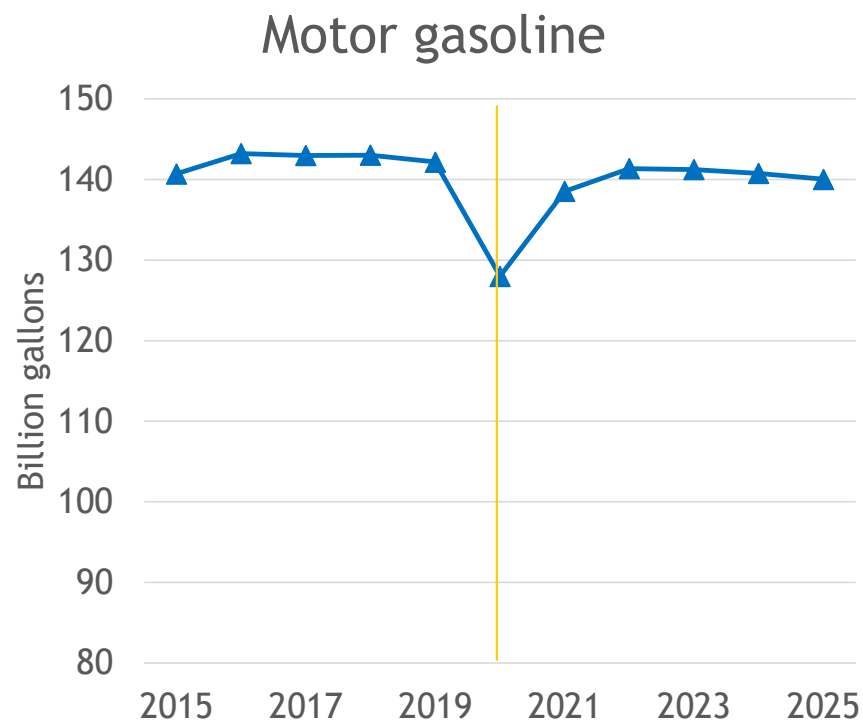
2020 corn production estimates

- ▶ As always, the market outlook depends on the weather and the size of the crop
- ▶ In May, USDA projected a 16 bil. bu. corn crop, based on farmer intentions to plant 97 mil. a.
- ▶ Actual acreage is lower, and USDA's August estimate is 15.3 bil. bu.
- ▶ ProFarmer's survey suggested a smaller 14.8 bil. bu. crop due to derecho and drought effects
- ▶ Final crop size will differ, of course



Sources: USDA WASDE estimates, ProFarmer

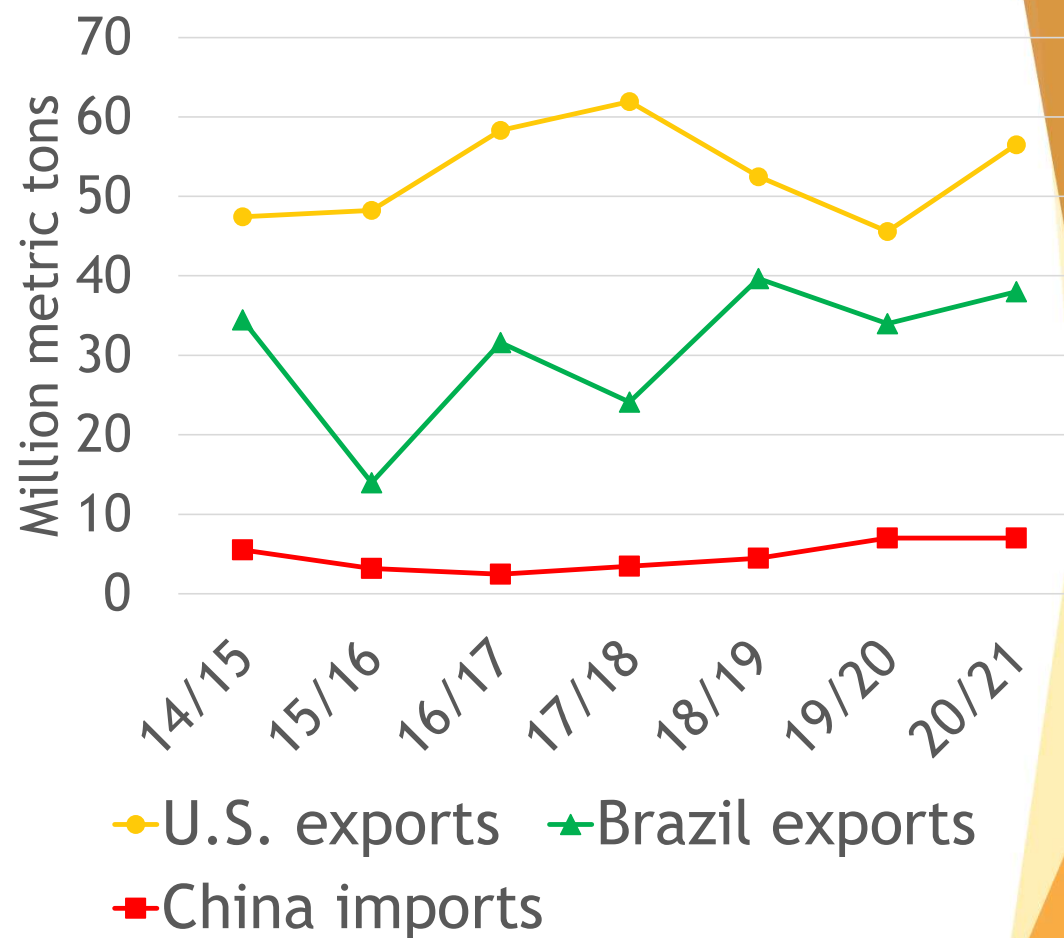
Motor gasoline and ethanol domestic use



Source: FAPRI-MU baseline update, June 2020

Corn exports

- ▶ U.S. corn exports declined in 2018/19 and again in 2019/20 because of strong competition from Brazil and other exporters
- ▶ In August, USDA projected a rebound in U.S. exports in 2020/21
- ▶ China has been buying more, with imports projected to reach the 7 mmt tariff rate quota
- ▶ To reach the USDA projection for U.S. exports, other countries will need to import more as well



Source: USDA FAS, PSD Online, Aug. 2020

Corn supply and use (mil. bu.)

	2019/20 (USDA)	2020/21 (USDA)	2020/21 (FAPRI)	2021/22 (FAPRI)
Production	13,617	15,278	15,075	14,854
Feed and residual use	5,600	5,925	5,858	5,757
Ethanol and coproducts	4,850	5,200	5,224	5,448
Other domestic use	1,410	1,425	1,406	1,417
Exports	1,795	2,225	2,172	2,344
Ending stocks	2,228	2,756	2,680	2,605
U.S. marketing year average price (\$/bu.)	\$3.60	\$3.10	\$3.24	\$3.39

Sources: USDA's World Agricultural Supply and Demand Estimates, Aug. 2020 and FAPRI-MU baseline update, Aug. 2020. Note: FAPRI projects 91.3 mil. acres planted in 2021, vs. 92.0 mil. acres in 2020.

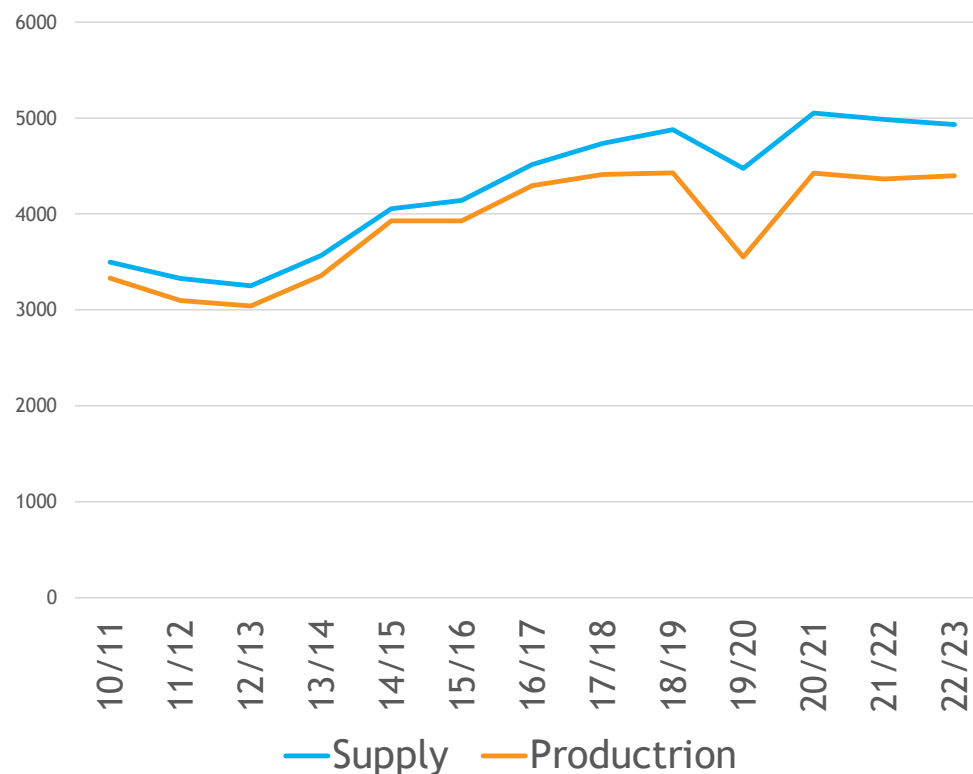
U.S. soybean prices have been surging



Source: CME 9-9-2020
@ 11:50am

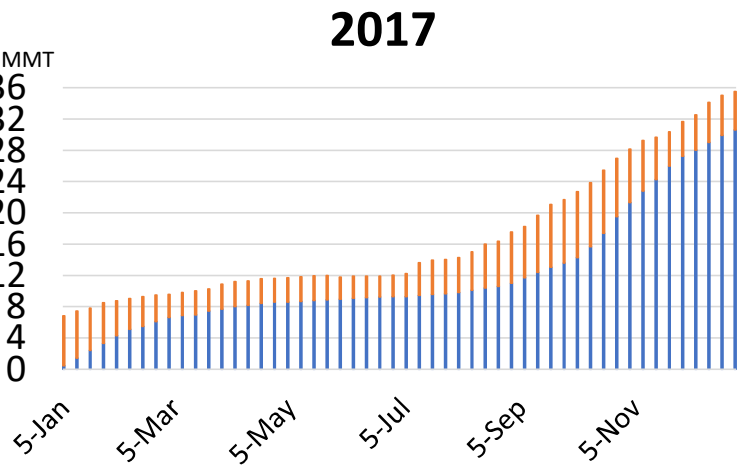
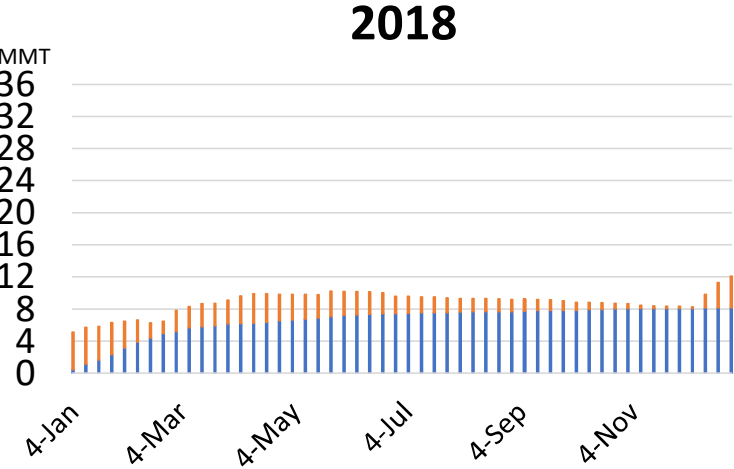
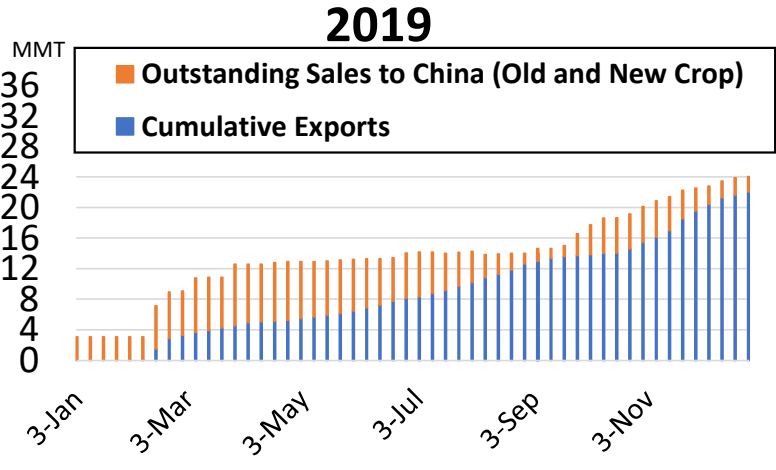
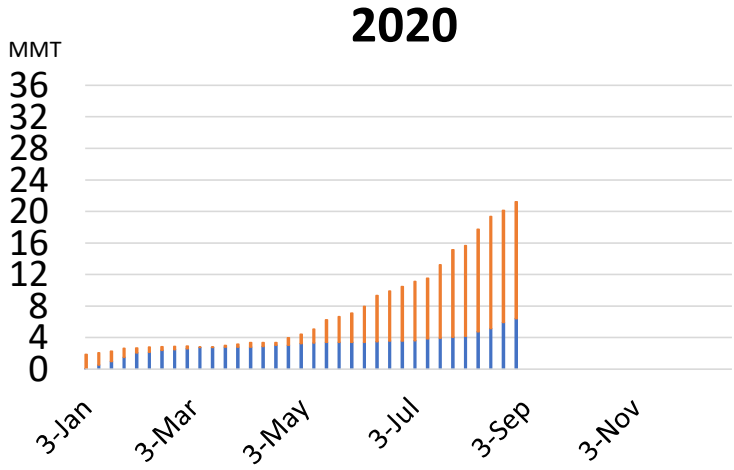
U.S. soybean supplies

- ▶ Spring flooding reduced 2019 U.S. soybean production
- ▶ The drop in total U.S. supplies was much smaller, because of large beginning stocks, due in part to the trade dispute
- ▶ The sharp rebound in U.S. soybean production in 2020 could lead to record U.S. supplies, and 2021 could again see another large crop
- ▶ Prices will face downward pressure unless the crop size shrinks or demand is very strong



Source: FAPRI-MU baseline update, Aug. 2020

U.S. Soybean Exports and Outstanding Sales to China

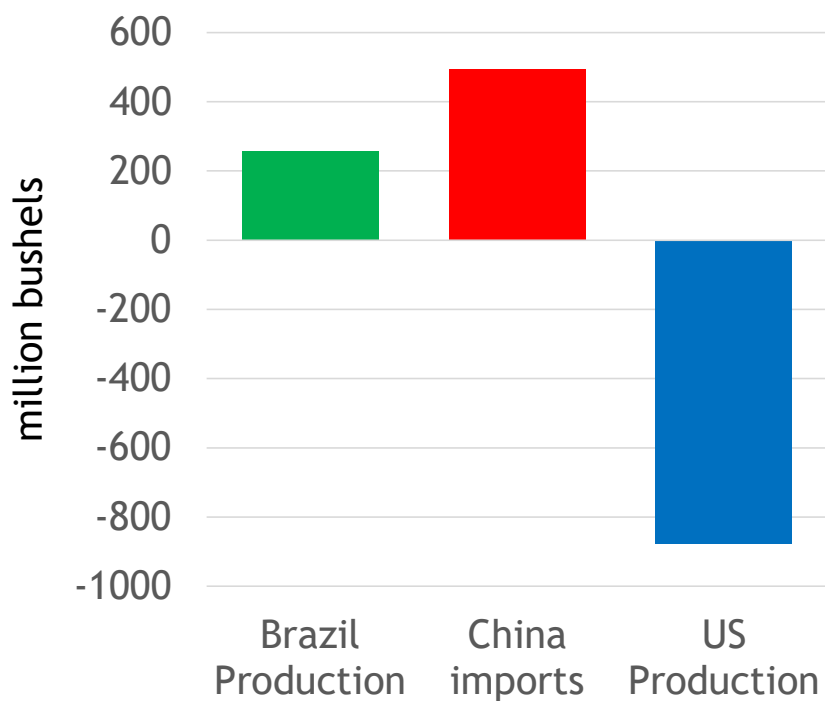


Source: FAS Export Sales

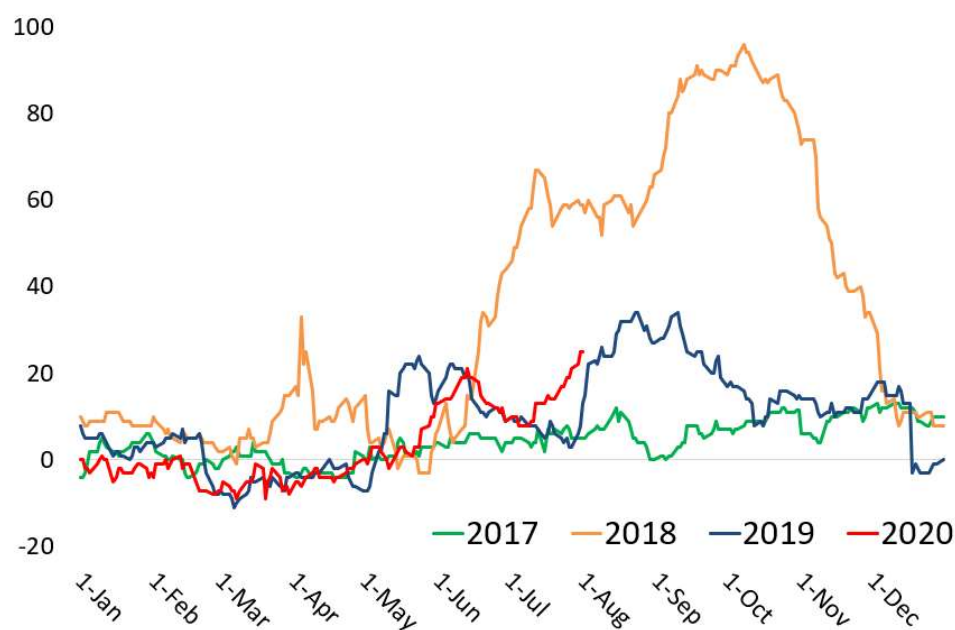


The increase in China's soybean demand met by Brazil's large(r) crop

18/19 to 19/20 soybean mkt changes



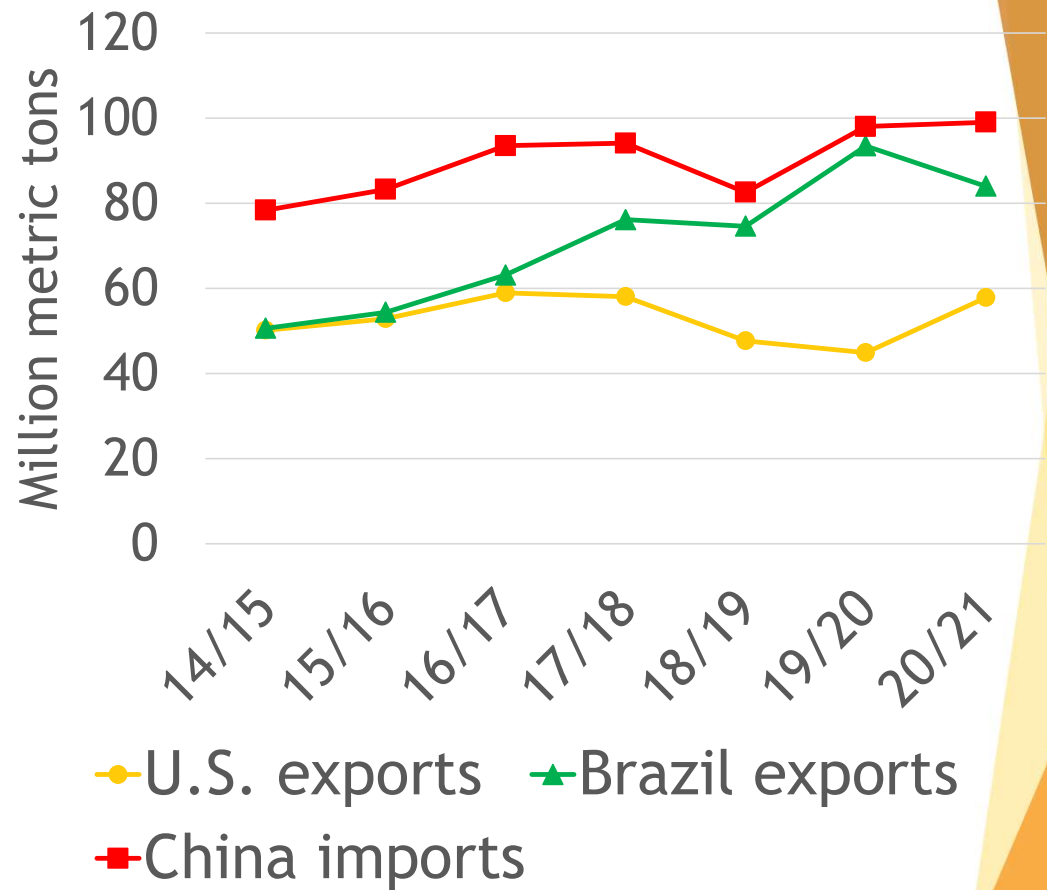
Brazil - US Soybean FOB Spread (\$/MT)



Source: IGC

Soybean exports

- ▶ Total soybean imports by China dropped sharply in 2018/19 because of African Swine Fever effects on pork production and retaliatory tariffs
- ▶ The rebound in China's imports has been strong, as the hog herd expands again and the Phase 1 deal encourages U.S. exports to China
- ▶ Brazil's exports of soybeans now far exceed U.S. exports and prospects for 2020/21 depend in part on crops yet to be planted in S. America



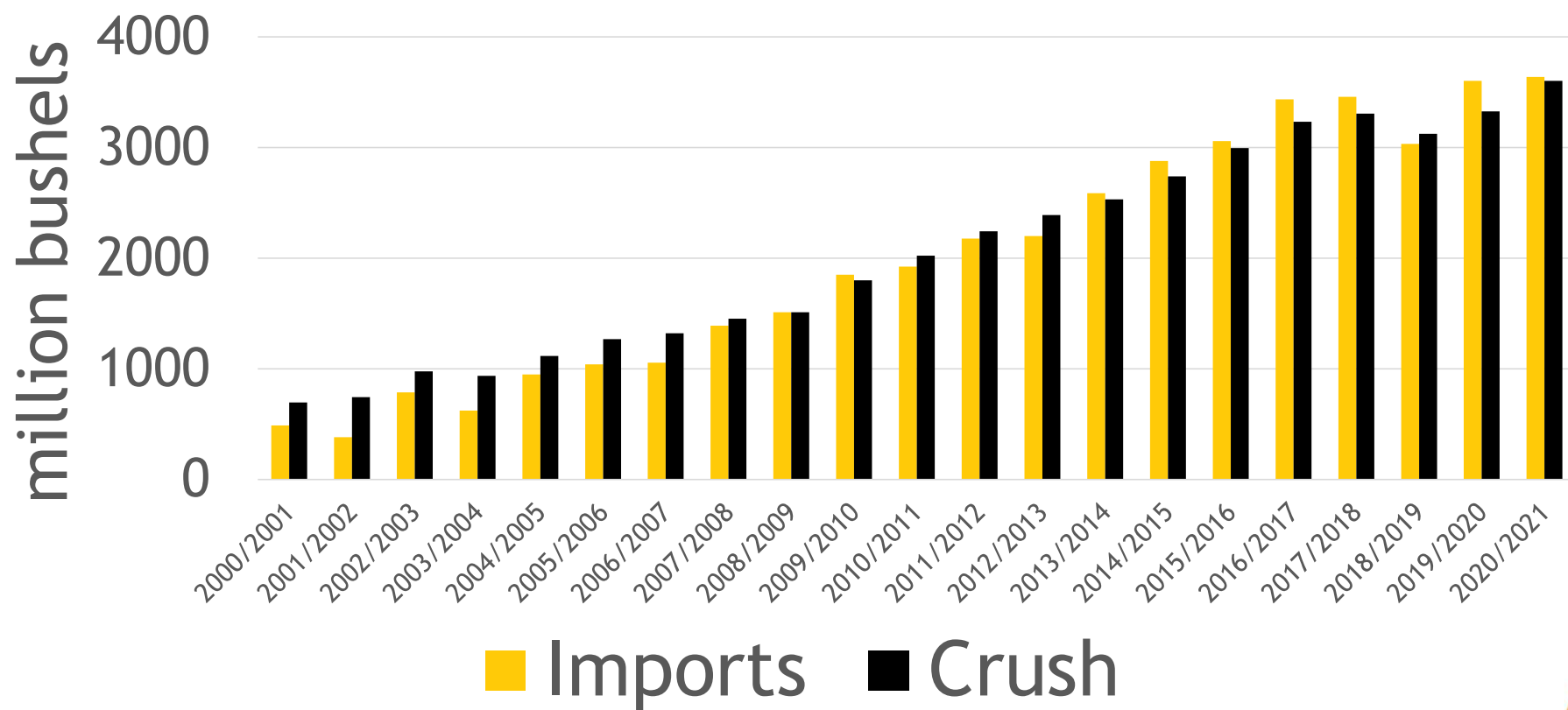
Source: USDA FAS, PSD Online, Aug. 2020

Soybean supply and use (mil. bu.)

	2019/20 (USDA)	2020/21 (USDA)	2020/21 (FAPRI)	2021/22 (FAPRI)
Production	3,552	4,425	4,425	4,367
Crush	2,160	2,180	2,181	2,213
Seed and residual	51	140	137	130
Exports	1,650	2,125	2,133	2,124
Ending stocks	615	610	603	517
U.S. marketing year average price (\$/bu.)	\$8.55	\$8.35	\$8.24	\$8.69

Sources: USDA's World Agricultural Supply and Demand Estimates, Aug. 2020 and FAPRI-MU baseline update, Aug. 2020. Note: FAPRI projects 88.6 mil. acres planted in 2021, vs. 83.8 mil. acres in 2020, while yields fall from a record 53.3 bu./acre in 2020 to a trendline 50.0 bu./acre in 2021.

Chinese soybean imports and crush suggest a strong turn around in their hog herd



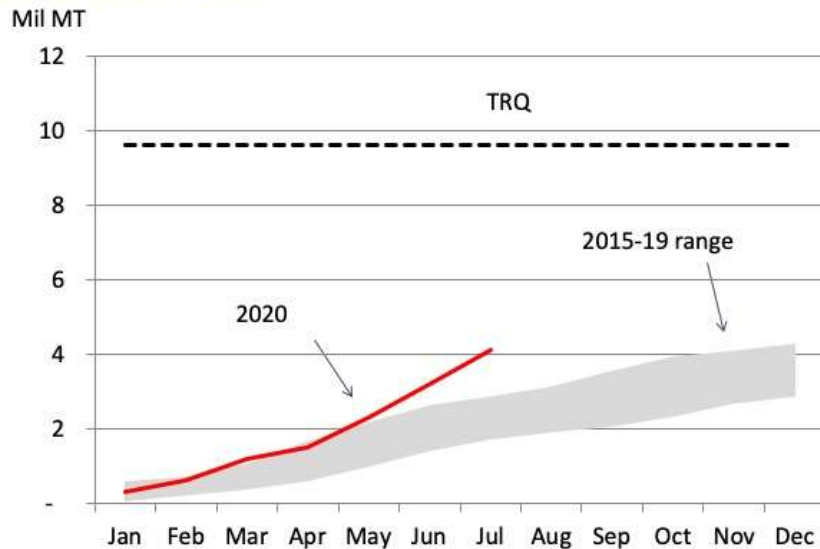
Will China fill the TRQs?

	Corn	Wheat	Rice	Sorghum	Cotton
TRQ	283 mil bu	354 mil bu	117 mil cwt	NA	4.1 mil Bales
Past fill rate (2016)	44.00%	35.40%	67%	NA	100%
STE % of past quota	60%	90%	50%	NA	

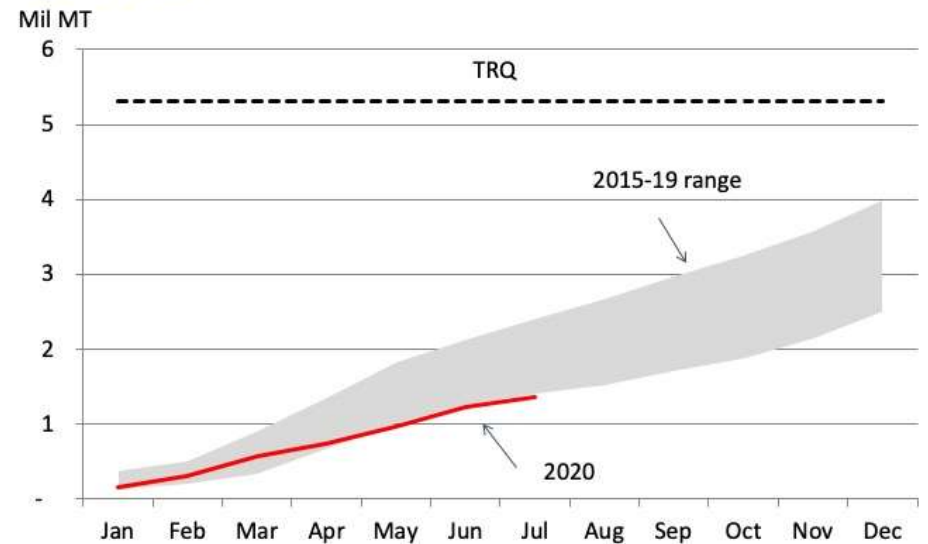
- China says no change to TRQ levels
- State Trading Entities (STE) like COFCO still get quota, but several other changes
- USDA forecasts China will not exceed TRQ for corn in 2020
 - Just booked 1.76 mmt from the US (2020/21)
- No TRQ on sorghum or DDGS
- Exceeded cotton TRQ regularly (expanded TRQ)

China wheat and rice import pace relative to TRQ (both the subject of a WTO case by the U.S.)

 Cumulative China wheat imports relative to TRQ

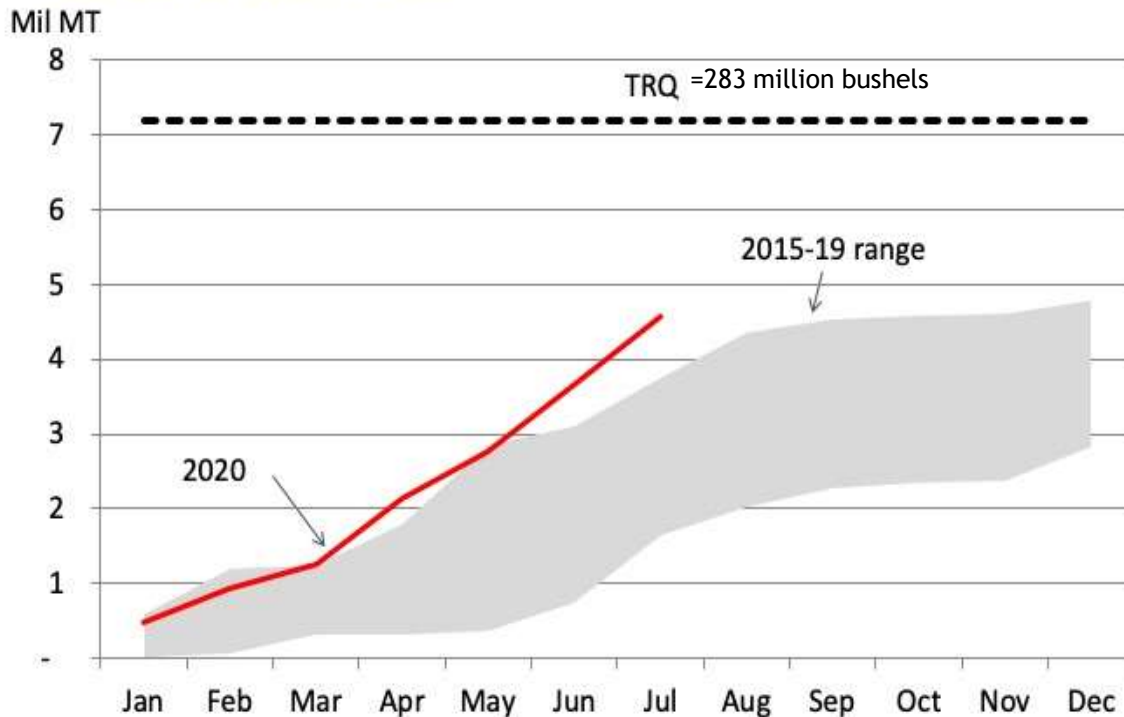


 Cumulative China rice imports relative to TRQ





Cumulative China maize imports relative to TRQ



Corn sales to China have been sharply higher

- Mid-July 76 million bushels
- End-July 69 million bushels
- End August 23 million bushels

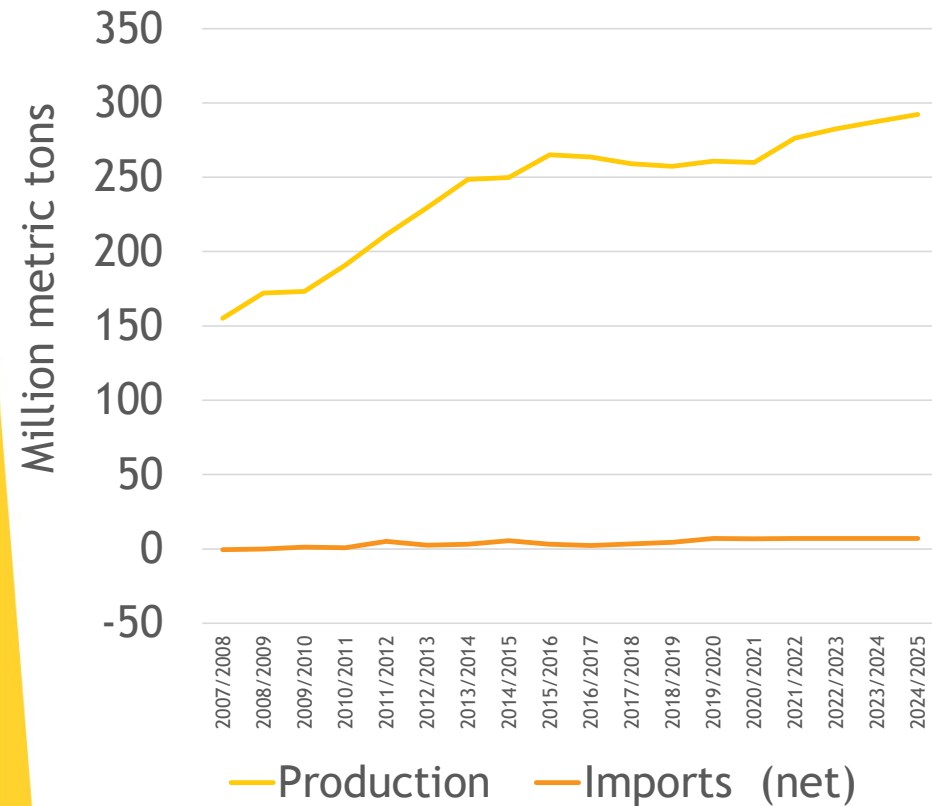
These are historically BIG sales to China (and big in general).

SAR picks up hurricane effects in China as well

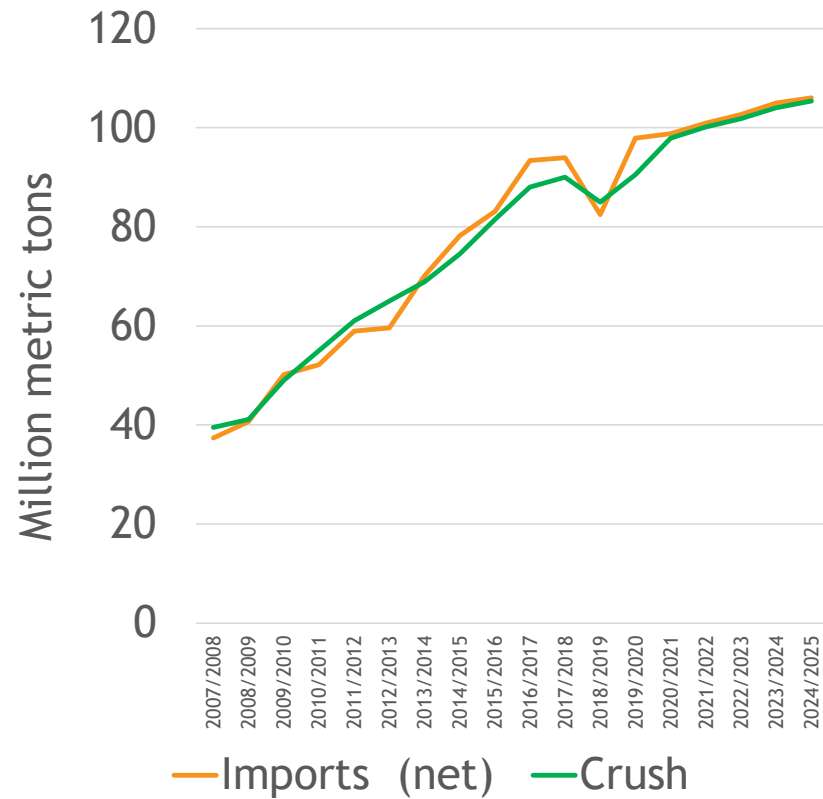


China's corn and soybean trade (and trade dependence)

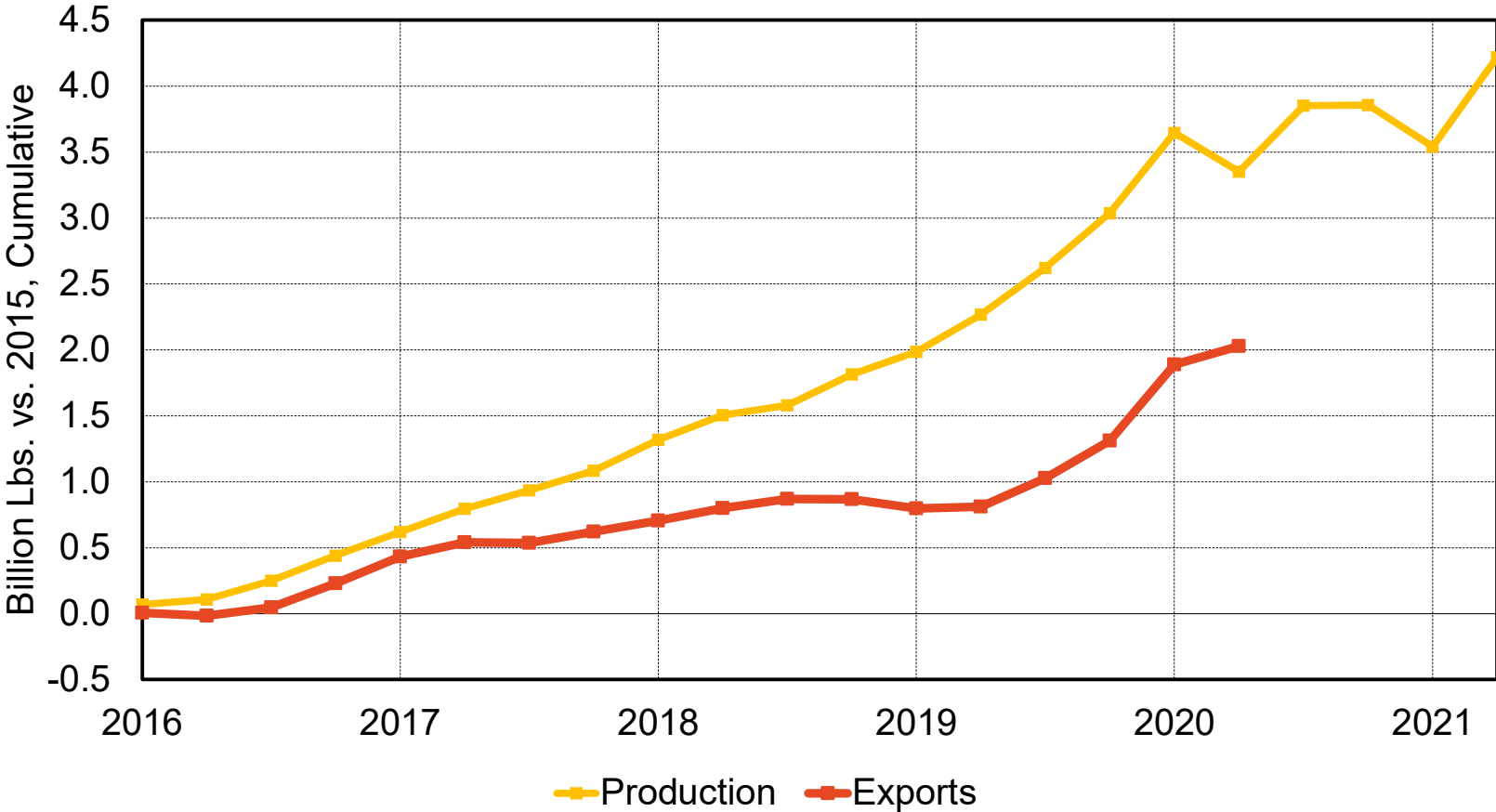
Corn



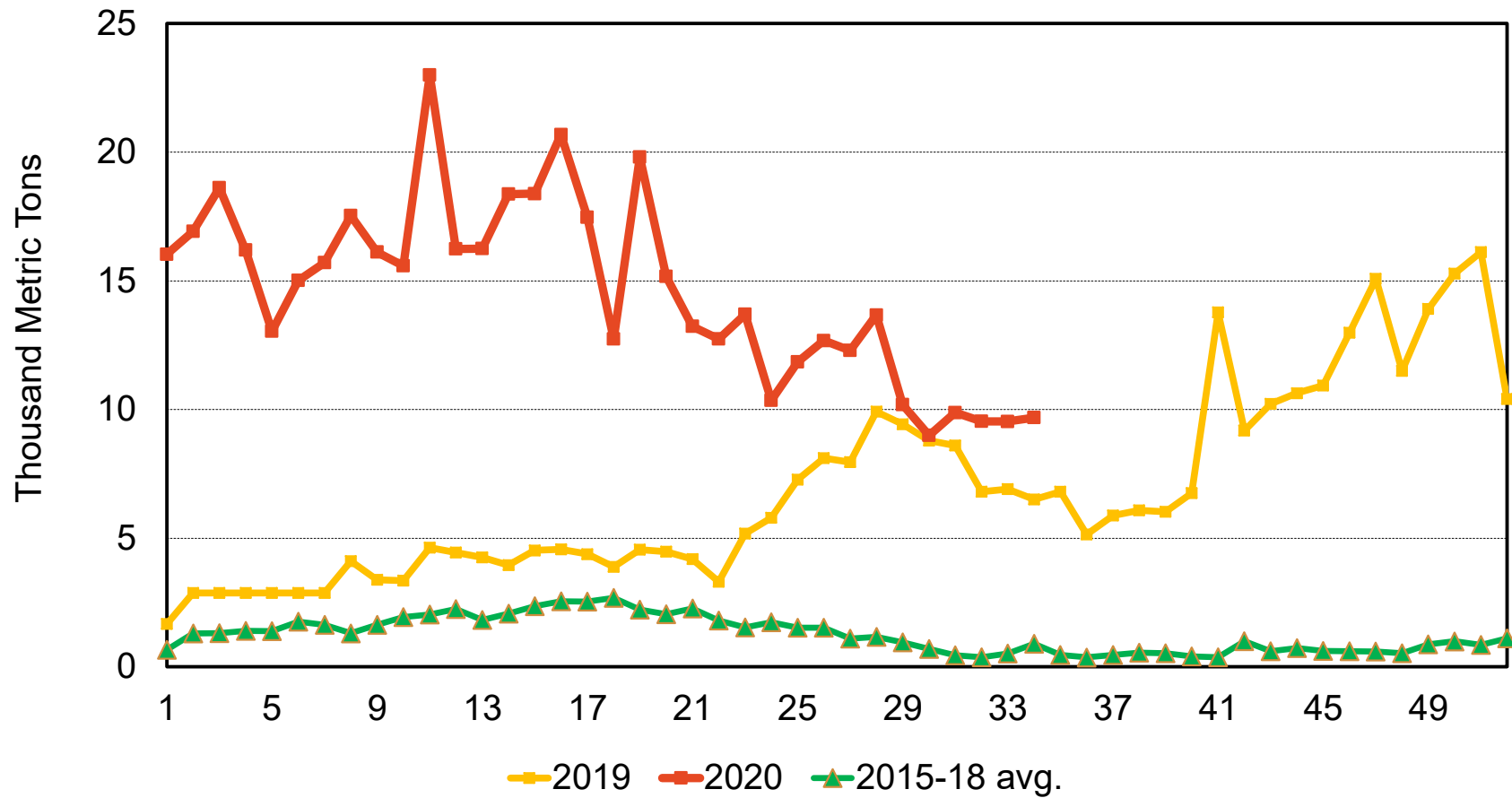
Soybeans



Pork Production vs. Export Growth

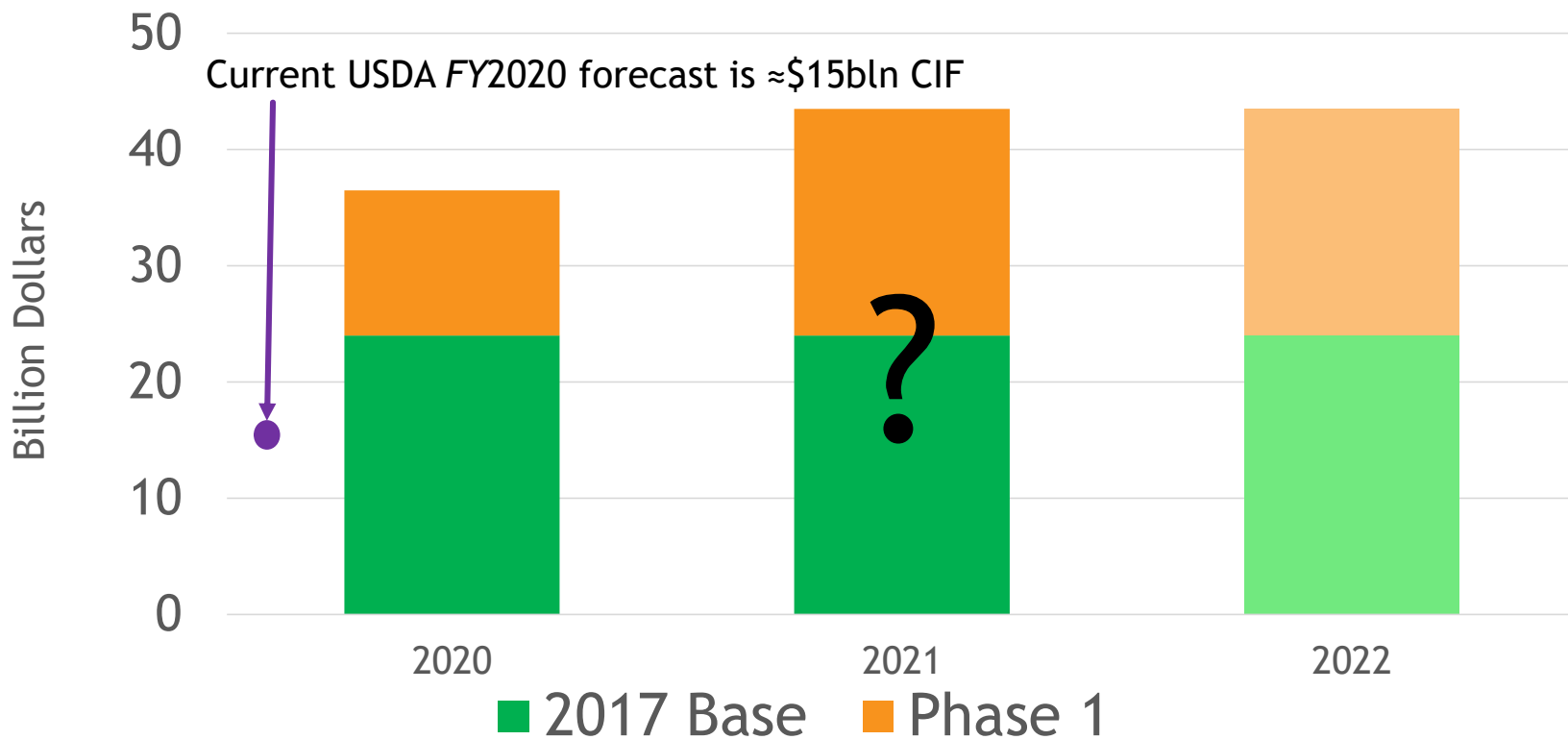


Weekly Pork Shipments to China



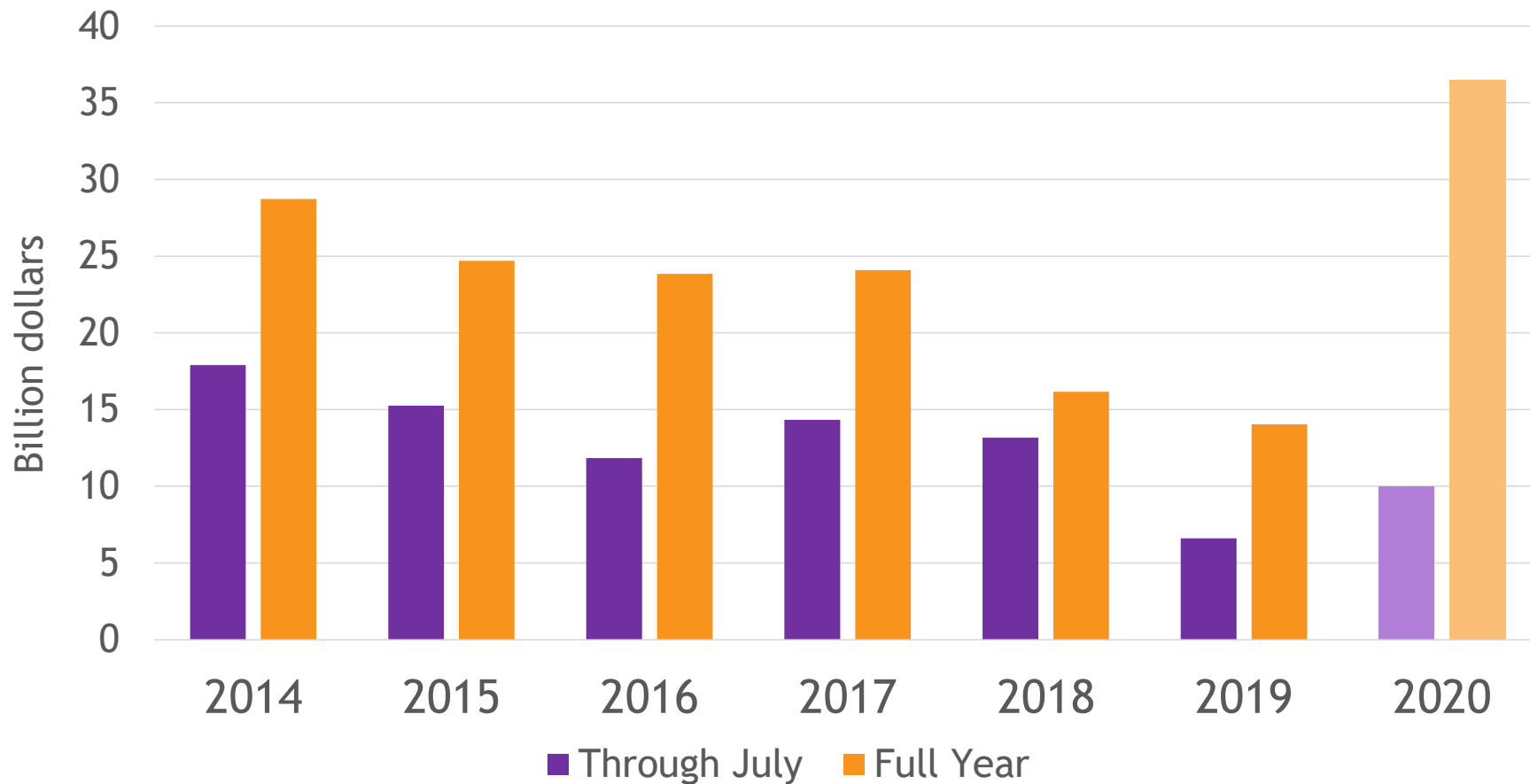
Phase 1 agreement, Jan 15

\$36.5bln CIF in 2020, \$43.5bln in 2021

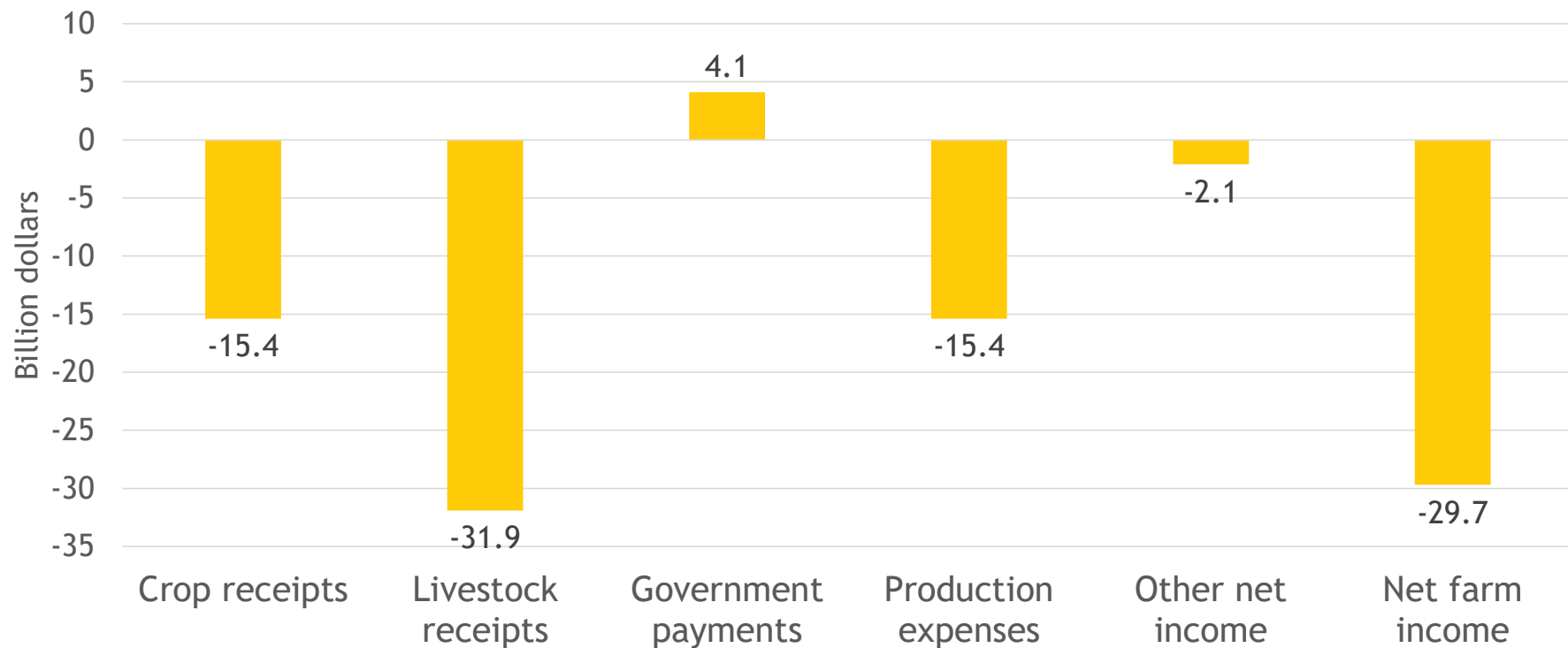


China imports toward Phase through July 2020

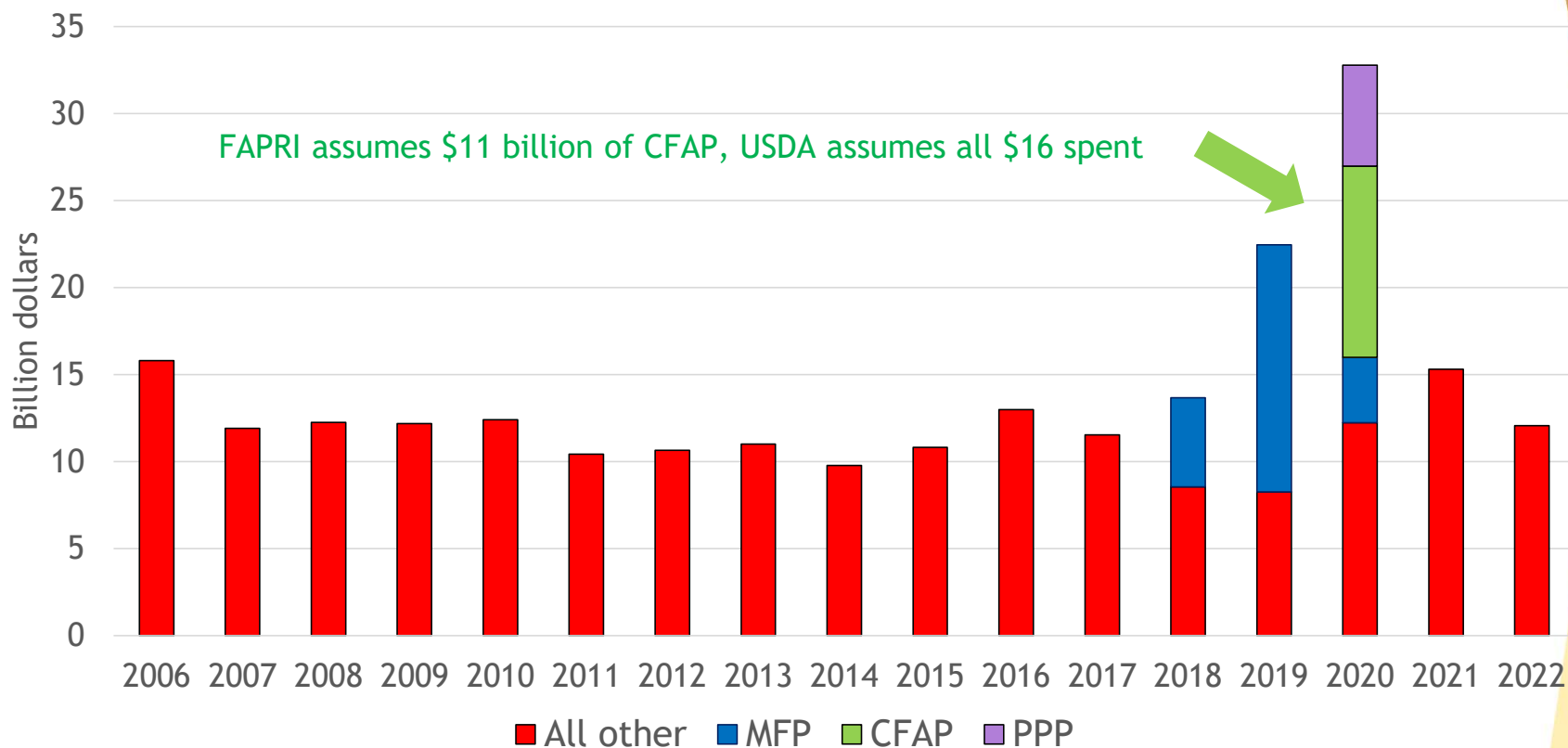
Imports measured CIF, July is a forecast



COVID-19 impacts on 2020 net farm income*

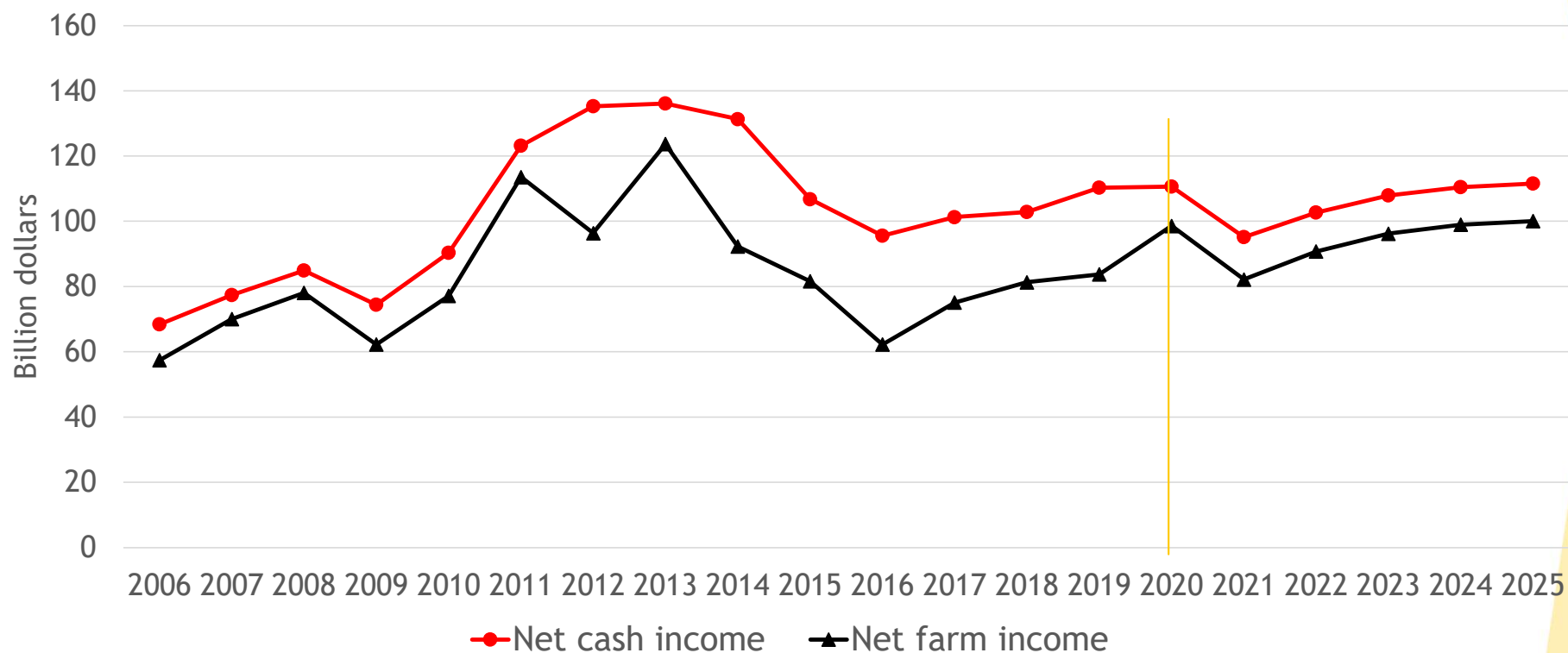


U.S. federal government direct payments to farmers



Sources: USDA Economic Research Service through 2019; projections by FAPRI-MU, September 2020.

Two measures of U.S. farm income



Sources: USDA Economic Research Service through 2019; projections by FAPRI-MU, June 2020.

Thanks!

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