

AGRICULTURAL MARKET MONITOR

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ROUNDUP:

Perhaps the largest news of the past couple of months are the trade war between the United States and the rest of the world, which have brought significant uncertainty in the global commodity markets. Countries like China has already announced retaliatory tariffs on the US imports of soybeans, dropping the global soybean and soymeal prices, affecting other agricultural commodities as well.

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FEATURED ARTICLE

In this section, we are going to present an important piece of global news related to the trade war.

Global Trade War Impact on Agriculture

Recent trade tensions between the United States and several of its trading partners, most notably China, have threatened to spill over into global commodity markets and disrupt trade flows and market prices.

As Donald Trump's trade war escalates, a lot of farmers are worried. Trump was elected, in part, on a promise to put America's interests first and crack down on what he characterizes as a world trade system rigged against the US. Nowadays, Trump's trade talk has seemed to harden. As the harvesting season begins, China, Mexico, Canada and the EU are all threatening retaliation over Trump's tariffs on steel and aluminum. Agriculture is in the firing line.

Farmers are often the first to feel the hit in trade disputes that may not involve their own products. This time, the scale of the dispute could hardly be worse: US agricultural exports are worth about \$140bn a year. Canada and Mexico import about \$39bn worth, China's share is \$20bn and the EU around \$12bn. All those countries have threatened retaliation over metal tariffs.

The dispute looks set to escalate. On June 15, the United States announced that it was imposing 25 percent tariffs on a range of technology goods covering nearly USD 50 billion of imports from China. This decision followed announcements in late May that the United States would impose tariffs on aluminum and steel imports from China, Canada, the EU, and Mexico. China reacted by threatening retaliatory tariffs aimed at a wide range of US products, including soybeans and other agricultural products. Similarly, Canada, the EU and Mexico have also announced retaliatory tariffs on a number of US agricultural products.

The market impacts of those announcements can already be felt. Nearby future contract prices for maize, soybeans and wheat have declined between 10-15 percent since June 1 reflecting, in part, the uncertainty hanging over markets due to impending tariffs. While many agricultural commodities are potentially affected, probably none more so than soybeans. China currently accounts for two-thirds of the world's soybean imports and the US accounts for roughly 40 percent of annual exports to China. To put this in perspective, about 25 percent of soybeans produced in the United States are exported to China.

According to AMIS, the impact on grain flows will likely be negligible over the next few months. That is because the Southern hemisphere typically supplies China from May until September when the US crop begins to be harvested. But already the impact of the proposed actions can be felt. Brazil reported record soybean exports to China for April and May, further exacerbating congestion and delays in ports already adversely affected by labor strikes. The larger impact will be felt, however, when the US crop is harvested, which this year is likely to be a near-record. Exports from the United States that would have normally gone to China will likely be diverted to other markets, potentially displacing more traditional suppliers. To meet their protein needs, China will attempt to source soybeans or other oilseeds from Brazil, Argentina and other suppliers such as Ukraine. This will tend to bid up prices of non-US supplies relative to soybean prices in the United States; as it is evidenced already, making US soybeans priced attractively for processors in South America. Indeed, the US Department of Agriculture reports that Argentina has recently purchased 540 000 tons of US new crop soybeans to help meet crushing needs caused by this year's drought-affected crop in that country.

Overall, it is unlikely that anyone will benefit from the trade war. Chinese processors, having to pay higher prices for the soybeans, will reflect this change in the consumer prices for pork and poultry. The American producers will suffer from lower prices in the short run. Over the long run, nevertheless, the costs of the American producers could get even higher, as an increase in soybean prices for non-American soybeans will likely result in the expansion of production in South America and a contraction in the United States. In the short run, the dislocations from trade wars could be large as constraints in transportation and storage facilities increase transactions costs and smaller exporters and importers must scramble to adjust to changing trade patterns.

GLOBAL SUPPLY AND DEMAND OUTLOOK

In this section, we are going to analyze the global production, consumption, and trade flow of the major agricultural products.

Wheat

- Wheat production forecast for 2018 decreased, mainly due to downward revisions in China, the EU, Russia and Ukraine.
- Utilization in 2018/19 reduced slightly following adjustments to feed, especially in Australia, Mexico and Ukraine.
- Trade in 2018/19 (July/June) virtually unchanged, as higher volume of sales from the EU and the US compensate for lower shipments from Australia, Russia, and Ukraine.
- Stocks (ending in 2019) trimmed sharply on downward adjustments in China, the EU and Russia.

Wheat MMT	FAO-AMIS			IGC		USDA	
	17/18 Est.	18/19 June F	18/19 July F	17/18 Est.	18/19 F'cast	17/18 Est.	18/19 F'cast
Prod.	756.8	754.1	736.1	758.1	736.8	758.2	744.7
Supply	1013.1	1027.5	1019.5	999.7	998.2	1015.6	1017.0
Cons.	738.2	743.5	741.1	738.3	742.6	743.2	750.9
Trade	173.5	175.0	175.0	176.4	176.5	182.8	187.3
Stocks	273.4	283.4	264.2	261.4	255.6	272.3	266.2

Source: AMIS

Barley

- Wheat production forecast for 2018 decreased, mainly due to downward revisions in Australia, the EU and Russia.
- Utilization in 2018/19 decreased by nearly 2 million tons following adjustments to feed, especially in the EU and Russia.
- Trade in 2018/19 (July/June) fell by 0.5 million tons, as lower shipments from Australia and Russia are expected.
- Stocks (ending in 2019) grew slightly due to the US doubling its stocks, compensating for the drop mainly in the EU and Canada.

Barley MMT	IGC		USDA		
	17/18 Est.	18/19 F'cast	17/18 Est.	18/19 June F	18/19 July F
Prod.	145.5	144.9	144.3	147.0	144.6
Supply	174.5	170.9	167.3	166.1	162.3
Cons.	148.5	147.6	148.2	147.8	145.9
Trade	29.6	29.3	28.7	29.0	28.5
Stocks	26.0	23.3	19.1	17.7	17.8

Source: USDA

Corn

- Corn production in 2018 to fall by over 4 percent from last year's record volume on shrinking harvests in several countries, in particular Argentina, Brazil and the US.
- Utilization up sharply from the previous season and now raised even further on projected stronger increase in industrial use (starch and biofuels), mostly in China.
- Trade forecast for 2018/19 (July/June) lifted m/m, reflecting much stronger import prospects by several countries in Asia.
- Stocks (ending in 2019) revised down, now lowest in five years, with further drawdowns in Ukraine and the US.

Corn MMT	FAO-AMIS			IGC		USDA	
	17/18	18/19		17/18	18/19	17/18	18/19
	Est.	June F	July F	Est.	Forecast	Est.	Forecast
Prod.	1091	1047	1045	1043	1052	1035	1052
Supply	1389	1356	1307	1374	1349	1263	1245
Cons.	1069	1090	1092	1077	1096	1070	1090
Trade	149	147	149	148	153	152	156
Stocks	310	262	260	297	253	193	154

Soybean

- Soybean production forecast for 2018/19 almost unchanged from last month, hence confirming a strong year-on-year increase fueled by prospective production rebounds in Argentina, Paraguay and Uruguay.
- Utilization adjusted downward, mostly reflecting lower than earlier anticipated forecasts for Brazil, where crushing is anticipated to drop from last season's exceptionally high level.
- Trade forecast lowered fractionally compared with last month, entailing slightly lower year-on-year growth.
- Stocks (2018/19 carry-out) forecast raised significantly on upward revisions for the US, Brazil and Argentina.

Soy- bean MMT	FAO-AMIS			IGC		USDA	
	17/18	18/19		17/18	18/19	17/18	18/19
	Est.	June F	July F	Est.	F'cast	Est.	F'cast
Prod.	337.9	358.3	359.6	336.9	358.4	336.7	355.2
Supply	390.5	397.8	396.3	384.9	398.9	434.1	447.7
Cons.	352.6	360.4	357.9	344.6	357.6	342.4	357.7
Trade	151.3	156.9	156.3	151.5	156.4	152.1	162.4
Stocks	39.5	36.7	39.2	40.5	41.4	92.5	86.7

Source: AMIS

INTERNATIONAL PRICE OUTLOOK

According to USDA, overall, exporter prices on wheat were down at the end of June. Australia wheat prices remain high due to dry growing conditions and increased domestic feed use. Argentina prices are high as supplies are seasonally tight. U.S. prices have declined due to favorable growing conditions, improving competitiveness against the European Union and the Black Sea region.

As for corn, the prices continue to fall. This month's 2018/19 U.S. corn outlook is for larger supplies, greater feed and residual use, increased exports, and lower ending stocks. The season-average corn price received by producers is lowered \$3.7 at the midpoint for a range of \$121 to \$158 per ton.

Argentine bids declined \$12/ton to \$162, and Brazilian bids were down \$14/ton to \$172, both largely driven by falling U.S. futures prices and depreciation of their respective currencies. Losses in Brazil were limited with deteriorating prospects for its second-crop corn. Black Sea bids were down \$8/ton to \$179 on uncompetitive prices. U.S. bids were down \$17/ton to \$160 reflecting sharply lower soybean prices, improved weather conditions across the Midwest, and larger-than-expected acreage and stocks estimates. Despite price declines, the United States remains the most competitive supplier.

In the more recent developments, the Russian **wheat** export almost tripled during July 1-10 to 676k tons on early harvesting start. It is reported by Sovecon that the FOB deep-water ports are on active demand. The forecast for Russian wheat exports in July is 2.2 million tons.

The table below shows the overall composition of the latest prices in USD.

Date	Commodity	Country	Incoterm	Previous	Spot	Spec
23.07	Wheat	Romania	FOB	204.39	204.51	12.5
		Ukraine	FOB	197.00	209.00	12.5
		Russia	FOB	198.00	212.00	12.5
25.07	Barley	Caspian	CFR	210.00	214.00	
20.07		Russia	FOB	188.00	204.00	
23.07	Corn	Romania	FOB	181.03	182.50	
		Ukraine	FOB	183.00	184.00	
		Brazil	FOB	177.60	179.60	
23.07	Soybean	Argentina	FOB	370.00	378.00	33.5>33%
		Brazil	FOB	381.95	390.50	33%
23.07	Soymeal	Argentina	FOB	378.20	375.89	46.5
		Brazil	FOB	383.71	372.58	46.5

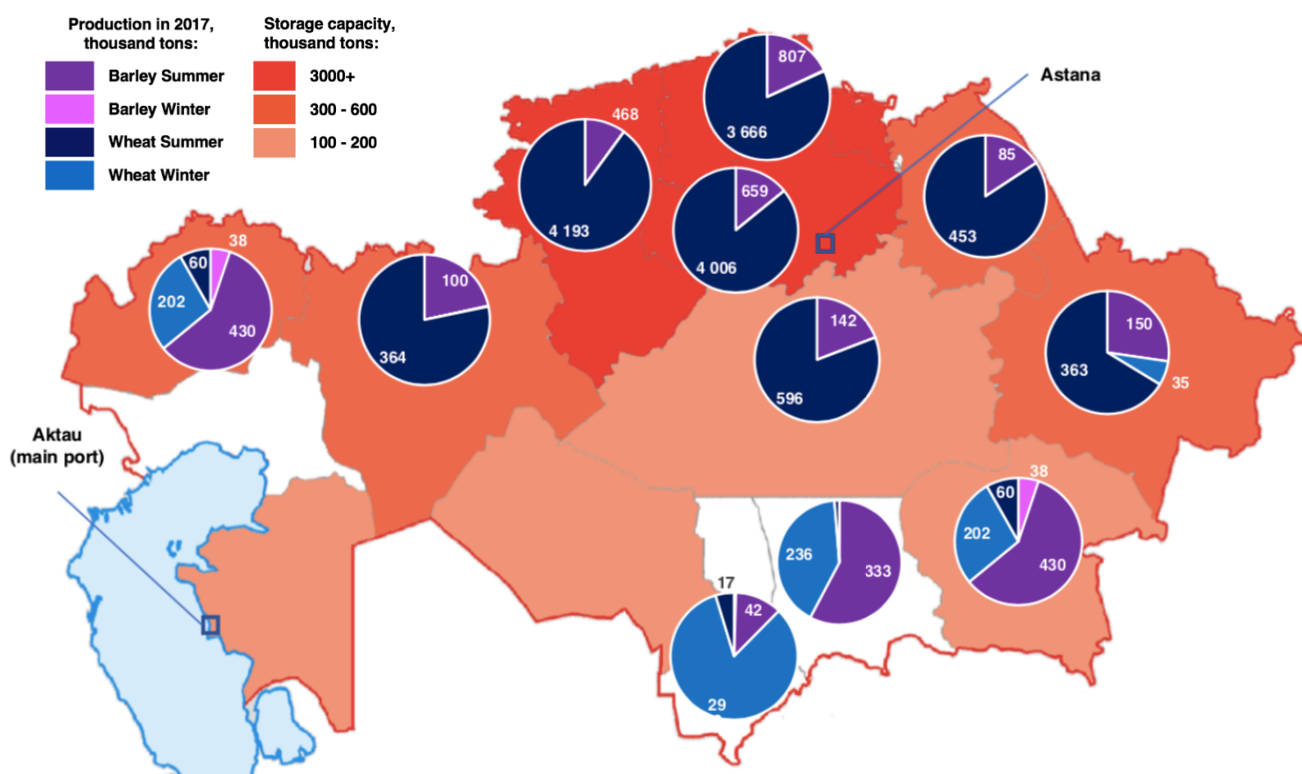
Source: AgFlow

CIS PRODUCTION

In this section, we are going to analyze the production, storage capacity, trade, and the outlook of the main CIS countries.

Kazakhstan

While Kazakhstan is not a large producer of corn (785k tons in 2017), it has a significant market of wheat (14.8M tons) and barley (3.3M tons). Most of the production and storage facilities are situated in the north of the country, from where it's transported via rail to other countries directly or through the main Kazakh port, Aktau, on the Caspian Sea. In 2017, the port of Aktau handled 492k tons of grain, a number kept stable in the last few years. Most of the remaining export was transported via rail to Uzbekistan, Tajikistan, China, and Iran (through Turkmenistan rail). The export through the port of Aktau goes mainly to Iran.



Russia

Russia was the world's largest producer of barley, with 20.6M tons produced in 2017 and is expected to retain its position this year. Last year, Russia again was the largest exporter of wheat globally at 33M tons. It is also the fourth largest producer of wheat (85M tons) and the eleventh largest producer of corn (13.2M tons). The three regions adjacent to the Caspian Sea, their production and storage capacity are shown on the picture on the next page.

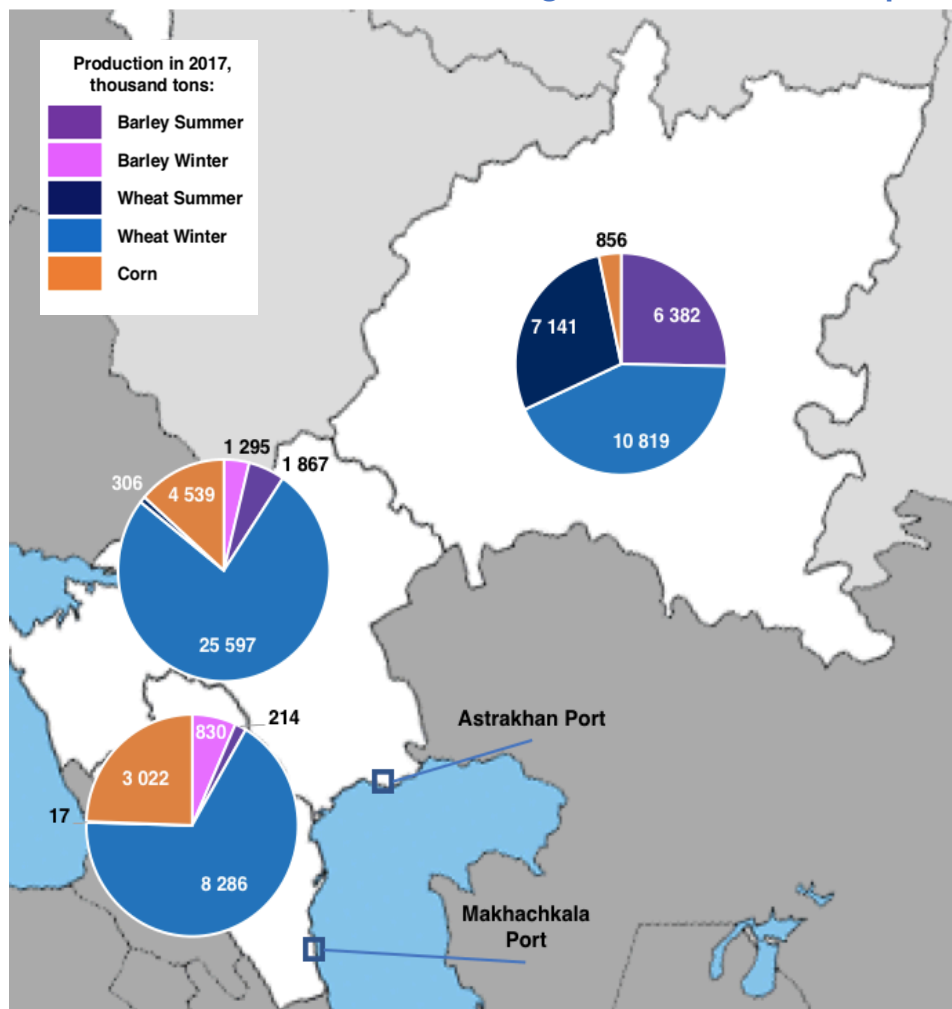
According to USDA's July report, global consumption of barley in the 2018/19 season will still exceed its production in the top growing countries. It is worth pointing out that export prices at the start of the new season are appreciably higher than last year, even though the harvest is in full swing in some of the major growers. At the moment, prices are supported not only by all-time low barley carryovers but also by concerns about the size of the new crop, as the expectations of the grain volume harvested are reduced significantly in many countries due to weather conditions: in Russia, the current expectation is at 17M versus 18.5M before, in the EU it's 60.5M versus 64.3M before, and in Australia 8.8M versus 9.8M before. The forecast of the production of corn in Russia was also reduced by 3.0 million tons to 12.0 million.

Thus, the world trade volume in the current season will significantly depend on export potential of key exporting countries, in particular major players such as Ukraine and Russia.

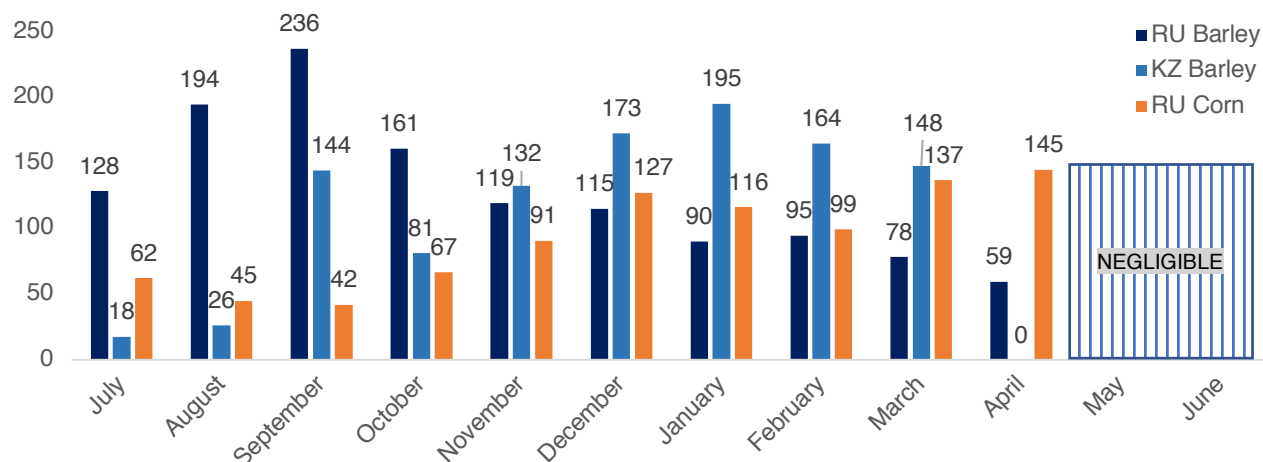
As for the exports of **barley** from the CIS countries, the Russian grain was most active in Fall 2017, whereas the Kazakh products sold mainly in Winter 2017/18, same as the Russian **corn**. There were very few deals made in May-June 2018 due to a high ratio of broken kernel in Russian corn.

As reported by the Ministry of Agriculture of Russia, by July 18 the export of **barley** reached 464 thousand tons, which 1.7 times exceeds the same period of last year (274 thousand tons). Some 168,000 tons of **corn** have been exported, which is 43% less than over the same period last season (297 thousand tons). By July 16, 2.3 million tons of barley were threshed.

Production of Grain in the Russian Regions Close to the Caspian Sea



Russian and Kazakh grain exports to Iran in 2017-2018



Weather Conditions in Russia

A snapshot of Russian weather conditions for winter barley and corn are presented on the charts below. Overall, this year has seen a lack of rain and thus the agricultural conditions were not as favorable as they were in the previous year. The south of Russia close to the Caspian Sea, however, is doing well when it comes to barley. As for corn, however, nearly 60% of its production is situated in the Southern and North Caucasus districts, and the forecast of its production has already been decreased by 20% due to draught.

Barley conditions:



Corn conditions:



Legend:

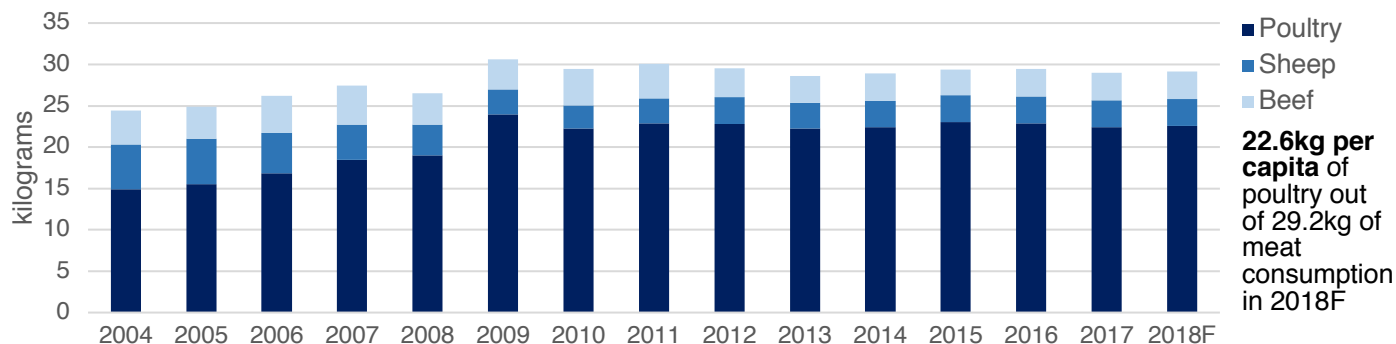


SUPPLY & DEMAND AFFECTING MENA

In this section, we are going to analyze the supply and trade of countries affecting Iran, as well as its consumption requirements.

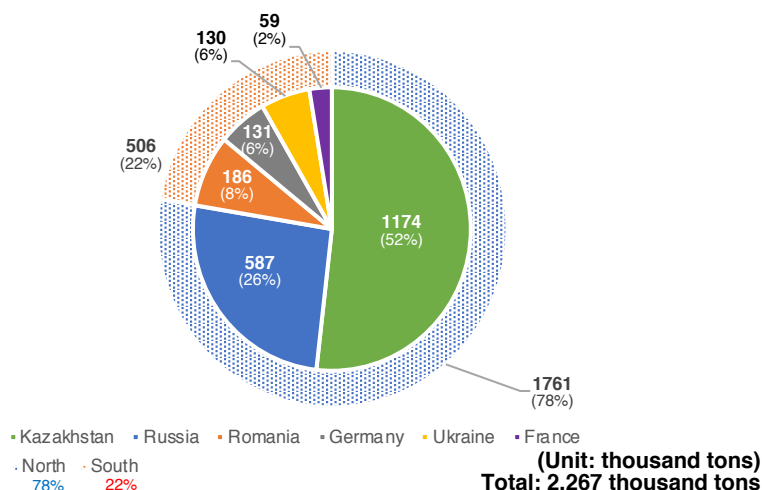
Iran Meat Consumption Per Capita

Feed demand in Iran is supported by steady needs for poultry & beef production, as shown on the chart below.



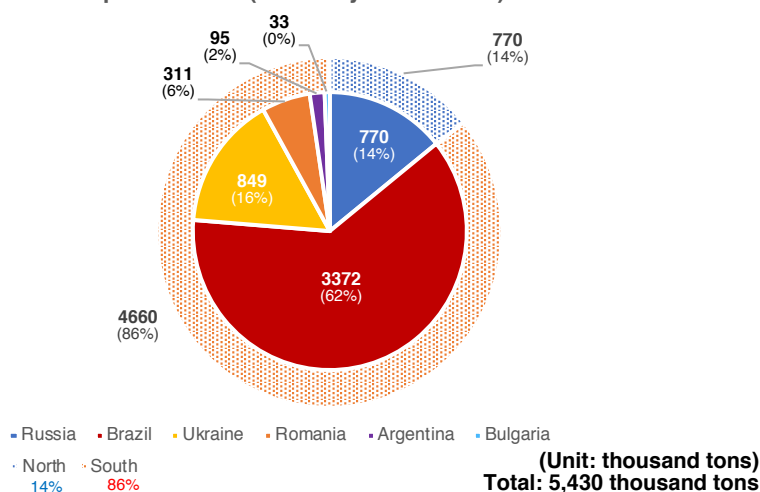
This demand is satisfied mainly by the imports. The structure of the trade is shown on the charts below.

Tracked Barley Imports to Iran (2017 May - 2018 June)



The majority of corn is supplied via southern ports (orange outer arc), comprising 86% of all imports. The remaining 14% (the blue arc) is supplied from Russia and Kazakhstan via the northern ports on the Caspian Sea. The picture is completely different when it comes to barley imports, with northern ports comprising 78% of the trade flow, due to a significant difference in the prices of barley shipped to Northern and Southern ports, of up to USD 30 per ton. The storage capacity in Iran is significant in the northern ports, however the imports are restricted by the discharge capacity, which is expected to grow at 4% annually. On these charts, the trade flow does not cover the full trading year, it only covers 75% of the actual trade flow, but the proportions throughout north and south remain the same.

Tracked Maize Imports to Iran (2017 May - 2018 June)



The proximity of Russia and Kazakhstan to Iran, the ability to ship the products via both sea and rail, creates a significant competitive advantage for them as exporters of barley and corn, as both countries possess sufficient production and storage capacities close to the Caspian ports. The estimated total vessel capacity on the Caspian Sea is 6.56 million tons from Russia and 3.57 million tons from Kazakhstan, assuming 100% utilization rate. As for trade with Iran, Russia and Kazakhstan provide over 92% of its barley imports.

Grain stats for 2017/18, MMT

Country/Product	Opening Stock	Production	Exports
BARLEY			
Russia	1.8	20.6	5.0
Ukraine	0.6	7.0	3.7
Argentina	1.0	4.0	3.0
Kazakhstan	0.3	3.0	0.8
Brazil	0.1	0.3	0.0
CORN			
Brazil	7.2	93.8	31.0
Argentina	6.0	48.3	29.0
Ukraine	0.4	27.8	20.5
Russia	0.3	14.5	6.0
Kazakhstan	0.0	0.8	0.0
SOYBEAN			
Brazil	1.6	119.5	72.6
Argentina	5.0	54.0	6.8
Ukraine	0.1	3.9	2.7
Russia	0.2	3.9	0.4
Kazakhstan	0.0	0.0	0.0

Source: IGC, Russian Ministry of Agriculture

Trade stats for 2017/18, MMT

Country	Barley Exports to Iran	% of Iranian Imports	Corn Exports to Iran	% of Iranian Imports	Soybean Exports to Iran	% of Iranian Imports	Soymeal Exports to Iran	% of Iranian Imports
Russia	1.28	44.0%	0.93	10.9%	0.02	0.7%	-	-
Kazakhstan	1.08	37.3%	-	-	-	-	-	-
Ukraine	0.13	4.5%	0.91	10.7%	0.36	14.5%	-	-
Argentina	-	-	-	-	-	-	0.29	23%
Brazil	-	-	5.18	61.0%	0.80	32.7%	0.09	7%
TOTAL	2.49	85.8%	7.02	82.6%	1.17	47.9%	0.38	30%

OTHER NEWS

Switzerland

According to Swiss local media, The Helvetic Confederation will not be inspired by the mechanism which will be activated by the EU on 6th of August to circumvent the economic isolation of Iran wanted by the United States. Swiss companies active in Iran will have trouble avoiding the next round of sanctions. The European Union (EU) reactivates the blocking status, a legal instrument that allows European companies and courts not to submit to sanctions imposed by third countries. EU foreign ministers activated Monday this mechanism already used to counter the embargo on Cuba in the 1990s.

Swiss diplomacy is currently active to maintain exports of Swiss medicines and food products to Iran. Basically, Switzerland does not want to anger the United States at the early stage of negotiations. Indeed, for the Swiss economy, the Iranian market is less interesting than the US market.

Germany

Germany's farming association said on July 18 that the winter wheat harvest would be substantially down from last year but it was currently unable to give an estimate because of uncertainty about drought damage. The association cut its forecast of Germany's 2018 winter barley harvest by 7.3 million tons from 8.0 million expected two weeks ago, in a steeper fall from 9.0 million in 2017.

Iran

The government of Iran has purchased more than 300k tons of colza worth around USD 210 million from local farmers so far this year, indicating an 85% rise in tonnage compared with last year's corresponding period, as reported by the National Oilseed Project of Iran's Agricultural Ministry. The figure is expected to reach 320k tons by the end of the harvest season. The Iranian government's approach to control the local market for strategic crops is to purchase the crops from farmers in bulk, store in reserves and then distribute them throughout the year. The increase in colza purchase this year points to a rise in the production of the oilseed. Of all the vegetable oils consumed in Iran, 95% are extracted from soybean, sunflowers and palm. The Agriculture Ministry plans to achieve 70% self-sufficiency in oilseed production within the next 10 years to curb the import of oilseeds and vegetable oil. Per capita vegetable oil consumption in Iran is about 18-19 kilograms a year while the global average is at 12 kilograms.