IGP Top 20 of 2020

The year 2020 has turned out to be historically notable in the unanticipated events that occurred throughout the year. Even on the last business day of the calendar year and New Year's Eve commodity markets are making new highs.

While 2020 will be most remember for the Novel Corona Virus Covid-19 Pandemic, political and economic issues, along with changing public sentiment through the year has been nothing short of historic. Agriculture has had a front row seat to many events impacting the wider public through the food supply chain, as well as some of the biggest issues our society is currently facing.

Through the following we will focus on international agriculture, and more particularly events impacting grains and oilseed markets. Over the past twelve months we have read about them in the papers, listened to them on the radio, and watched them evolve on social media, as they have presented opportunities, as well as made us uneasy about the future.

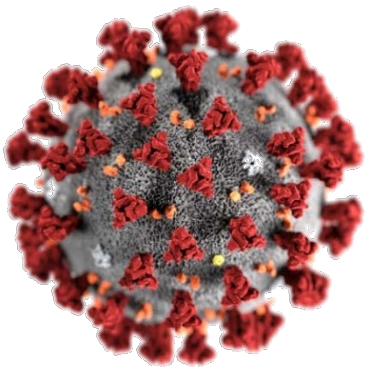
Following, we have tried to highlight the top 20 most important events and stories of 2020, taking a look at their immediate impact, as well as their long-term implications for agriculture.

I would suggest at the end of 2020, and as we look forward to 2021, uncertainty and risk is much greater than it was a year ago.

1. Novel Corona Virus Covid-19 Pandemic, Impacts on Agriculture

Coming in at the top of the list is the Novel Corona Virus Covid-19 Pandemic. At the end of 2020 the novel corona virus continues to impact at least 218 countries and territories worldwide.

The pandemic that originated late last year in China, spreading rapidly around the world. Thus far, more than 65.6 million cases have been documented, and that number continues to increase. As we approach the end of the year, the U.S. has logged more than 14.6 million cases, and approaching 300,000 related deaths. In recent weeks in December, the US has approved vaccines from Pfizer and Moderna.



The full impact of this virus has yet to be fully documented. However, the impact on agriculture supply chains come most immediately to mind with closures at processing plants and food distribution points.

From early in the year, and at the beginning of the virus's appearance in the U.S., markets saw a swift tumble in corn, cotton, soybean and wheat futures beginning in March.

Just weeks into the pandemic, it was becoming clear that social distancing and other preventive measures were going to be long lasting. As a result of travel restrictions, both domestically and internationally, were implemented, business meetings, conferences and show events were cancelled. Many of these were replaced with 'on-line" virtual events. Ethanol plants became idled as travel was halted and the demand for fuel dropped sharply, significantly impacting the price of corn and grain sorghum.

As food demand shifted away from restaurant and institutional demand to more home food consumption, we saw major operational shifts in the supply chain; some more quickly adapting than others. A number of fruit and vegetable farmers decided that their best option was to leave produce in the field. The challenges began appearing on dairy farms, as well. We were left to watch large volumes of perishable food stuffs being dumped.

At the end of 2020 we still find ourselves in the middle of this pandemic. When the situation will return to "normal" remains a primary question and, what this "new normal" may look like is to be defined. However, it is clear that consuming habits have been changed and demand curves have shifted.

Agriculture and International Trade Agreements

Highlighting 2020 was the conclusion of two major international trade deals significantly impacting agriculture, and a third is still in the process of being negotiated. These trade agreements will have a significant impact on agricultural, both immediately and in the longer term.

2. US - China "Phase One" Trade Agreement

In the middle of January 2020, President Donald Trump signed the Phase One Trade Agreement with China, signalling a major step toward ending the two-year struggle between the two countries to come to an agreement. Phase One Agreement was promoted as a $200 billion deal, with China expected to purchase up to $50 billion worth of agricultural products in each of the two years that followed. The result would have an immediate and significant impact on U.S. agricultural commodity exports and trade.

The agreement continues to be widely celebrated by agribusinesses and farm organizations alike, which in 2019 had seen negotiations with China stall with threats of tariffs by both sides become commonplace. In 2019 agribusiness had witnessed a halt by China of agricultural imports from the United States, which raised concerns for many months about the future of trade between the two countries. Throughout the latter half of 2020, after the Phase One Trade Agreement had been signed, the US Trade Representatives, along with leaders from agribusiness continued to press national leaders to assure that both nations are upholding their ends of the deal and that purchasing obligations are being met.

While the improvement in trade with China has rallied U.S. commodity prices to new highs, and this support is expected to persist well past the 2021/22 marketing year; a longer-term commitment by China to continue to purchase U.S. commodities remains questionable as geo-political tensions continue to over shadow the relationship. It would be suggested that longer term the United States is not likely to remain as the preferred supplier to China.

3. USMCA – United States, Mexico and Canada Trade Agreement

On the 29th of January 2020, President Donald Trump signed a trade pact that will have a longer lasting impact on U.S. agriculture than the China agreement. This was the United States-Mexico-Canada Agreement, better known simply as USMCA. This agreement replaced the North American Free Trade Agreement (NAFTA), which created a trilateral trade bloc more than 25 years ago across North America, and which went into effect on the 1st of January 1994.

The revised trade agreement was seen as a major win for farmers and ranchers, and will have a long-lasting impact on trade. The agreement is expected to increase agricultural exports from the U.S. by more than $2 billion and result in an overall increase of $65 billion in gross domestic product.

Canada agreed to increase quotas on U.S. dairy products, benefiting American dairy farmers by $242 million, and would treat wheat imports the same as domestic wheat for grading purposes.

Mexico agreed that all grading standards for agricultural products will be non-discriminatory.

Despite the promises made, the COVID-19 pandemic has thrown much of the implementation of the agreement into disarray. However, the longer-term impact of the pandemic and the uncertainty of trade relations with China will expedite the movement of supply chains away from China back within North America.

4. And then there's the UK and Europe

This issue should actually be ranked further down the list, somewhere in the teen's; but, for the sake of continuity of reading I have listed it here with the other trade related issues…

Waiting until the very last moment ahead of the 31 December deadline, United Kingdom lawmakers voted to back the post-Brexit trade deal with the EU late on Wednesday.

While the UK officially left the EU at the end of January 2020, it has taken until the 11th hour to approve a new trading arrangement with the EU.

The UK has also been negotiating other trade agreements to replace what it's giving up by leaving the EU trading bloc. It signed an agreement with Canada in November to continue trading under the terms of the EU treaty while they work toward a bilateral deal.

According to reports, the U.K. has secured post-Brexit agreements with 53 countries, but the U.S. is not one of them. Perennial agricultural issues, like hormone-free beef and poultry washed with microbial chlorine, are at the heart of the remaining issues, although U.S. Trade Ambassador Robert Lighthizer has said he is hopeful a last-minute deal can be struck.

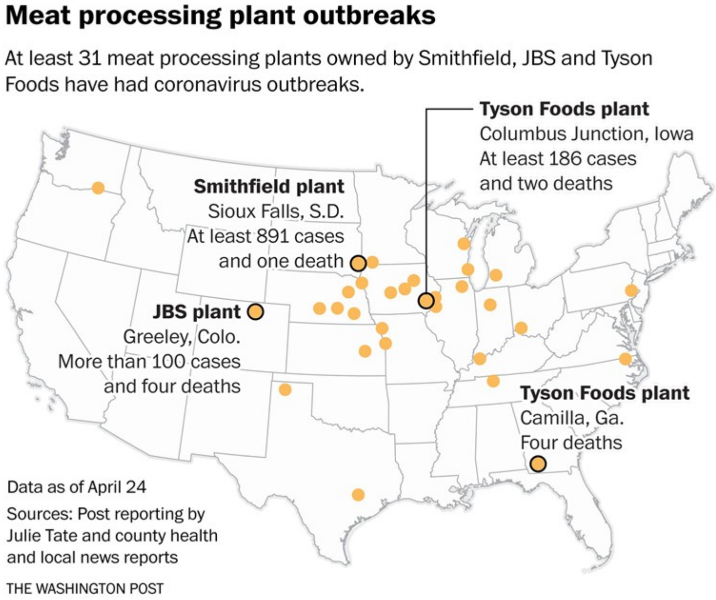
Trade pacts played an important part in the narrative of 2020, but whether that's a net positive for U.S. agriculture will be determined in 2021 and set the stage for years to come.

5. Live Cattle, Hog Futures Plummet On COVID-19 Meat Plant Closures

During the last half of March and early April we saw Covid-19 pandemic severely impact livestock markets, as increasing cases reported across the meat processing sector began to shut down a number of plants.

Lockdowns of slaughter and processing plants were seen across the country in an effort to stem the spread of the virus.

As a result, a large backlog of market-ready cattle and hogs backed-up with producers, while at the retail level, consumers saw prices for beef and pork skyrocket due to the reduced supply.

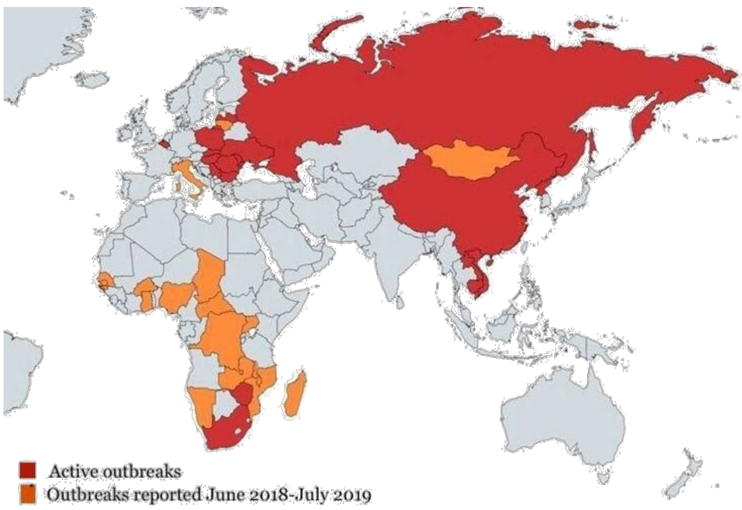


Eventually, plants were able to resume operations, even at first with a reduced capacity, which allowed the market to eventually work through the backlog stock. Markets soon recovered aided by strong export demand from China across pork, beef and poultry.

6. African Swine Fever Recovery in China and Southeast Asia Swine Herds

China and Southeast Asia's swine herds have been ravaged by African Swine Fever (ASF) over the past two years, with numbers dropping as much as 50% by early 2020.

Recent reports out of China suggest their pig numbers have recovered to more than 90% of normal levels by the end of November, said the official news agency Xinhua. Production capacity is expected to fully recover by the first half of next year.

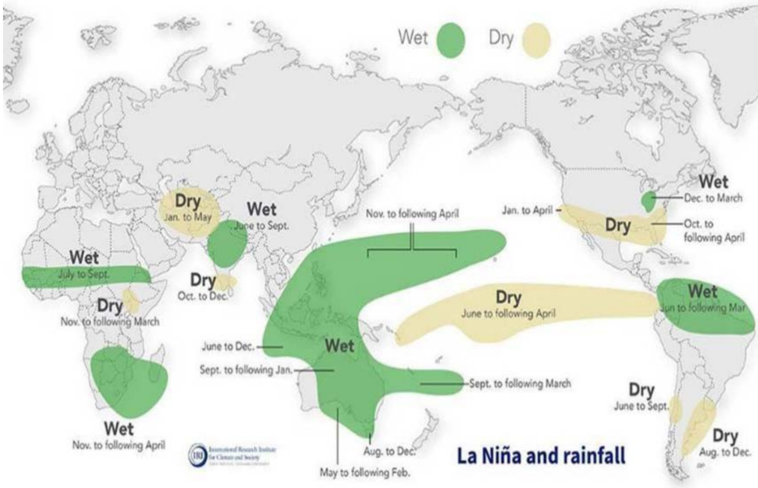


While these estimates appear to be optimistic, recent sales volumes of both corn and soybeans would lend credence to this outlook. Strong policy support and subsidies launched last year have helped drive a rapid recovery, with the building and stocking of new farms outpacing most expectations. However, domestic pork prices in China still remain near record levels driving food inflation, as supplies are still far short of demand. This month prices reached 33.6 yuan (US$5.13) per kilogram and could break past 35 yuan before the upcoming Lunar New Year holiday in February.

Another significant driver in growing feed demand has been the removal of “back yard” swine production, which historically accounted for half of China’s pork production. With the advent of ASF the Chinese government banned “back yard” production as it was a predominant vector in the spreading of the disease. Government support has also encouraged the rapid expansion of commercial production; the latter of which is large consumer of commercial feed, supporting the use of imported soybeans and other feed grains.

7. La Niña Returns

2020 began with expectations for large crop production and ample soil moisture following record wet conditions in 2019. The outlook remained exceptionally optimistic through July. Then things began to take a turn and dry weather and drought conditions in some area resulted in eventual harvest estimates being notably lower than initial forecasts.



The formation of a Pacific Ocean climate event "La Niña" in midsummer; and a catastrophic Derecho windstorm in the Midwest on the 10th of August. The poor growing conditions shaved yields considerably from earlier forecasts in the year.

By mid-year we saw atmospheric indicators reflect a maturing La Niña develop as equatorial Pacific waters off the South America coast cooled to the La Niña threshold value of 0.5 degrees Celsius below normal during July.

La Niña is the term used to identify the coupled ocean-atmosphere phenomenon that is the colder counterpart of El Nino, as part of the broader El Nino-Southern Oscillation climate pattern.

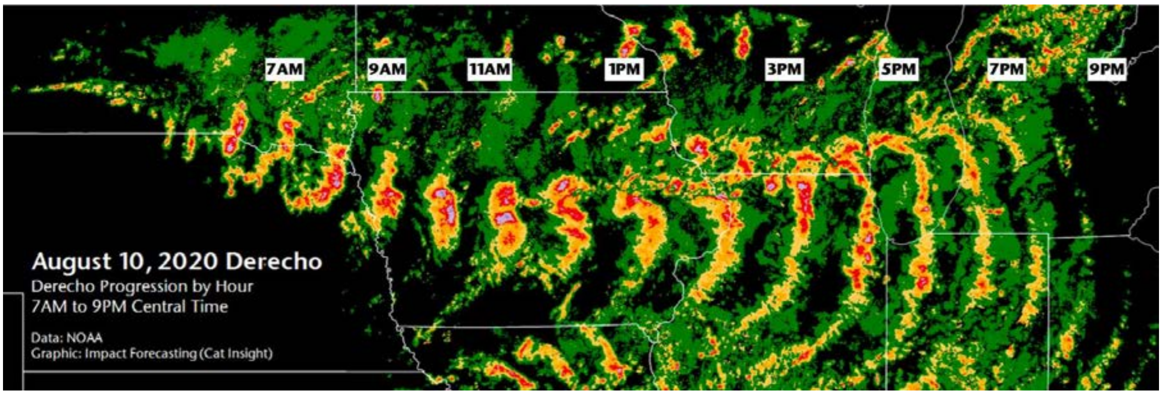
La Niña weather patterns are typical of drier weather patterns in major grain producing areas in Argentina, Brazil, Black Sea, and southern grain belt of the United States, while indicative of wetter patterns in Australia and South Africa.

Current drier weather is adding a major concern to future global grain and oilseed supplies in 2021 and has put a significant weather premium in prices.

In the central United States summer temperatures averaged 1' to 4' degrees Fahrenheit above normal, with precipitation less than 75% of normal. August, the critical month for crop development, was particularly dry. Iowa, the largest corn producing state and second largest soybean producing state, had its third driest August on record; with the southwest Iowa crop district having the driest August on record, and Illinois, the largest soybean producing state and second largest corn producing state, recording its 13th driest August.

In the waning days of 2020, we have seen weather models suggest the event will peak at moderate levels during December, returning to a neutral phase early in 2021 during March or April. Chances of La Niña conditions continuing in January through March 2021 are greater than 95%, with a -65% chance of continuing through March to May 2021.

8. Derecho

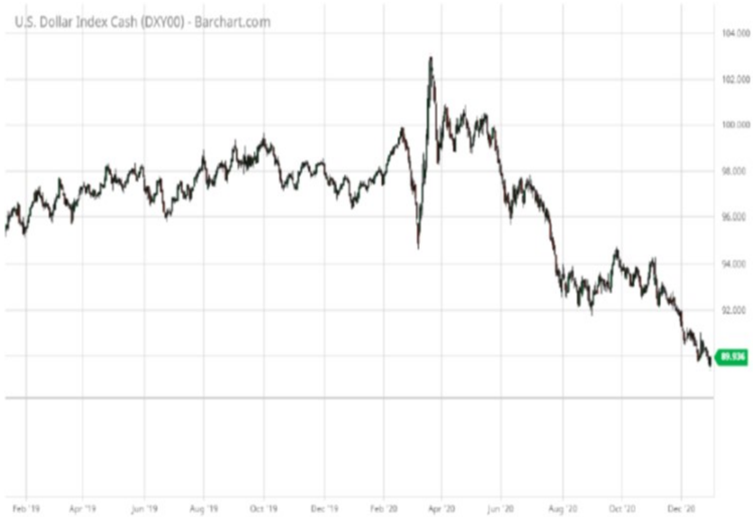


On the evening of Monday, the 10th of August 2020, a weather complex known as a “Derecho” *(pronounced "deh-REY-cho")* formed in south-eastern South Dakota and north-eastern Nebraska and sent intense winds with thunderstorms tearing across a 700-mile stretch in the heart of the corn-belt from Nebraska to Indiana impacting seven states. Winds reportedly reached 110-140 mph, equivalent to those of a Category 3 or 4 hurricane, flattening crops, especially corn, along with grain storage facilities and trees, and caused extensive power outages. The World Meteorological Organization noted that the Derecho destroyed or damaged crops on 5 million acres. The total loss from the Derecho is estimated at $7.5 billion.

In the hardest hit state of Iowa, the No. 1 corn and No. 2 soybean producing state in the U.S., three deaths were reported, with more than 50% of the state’s corn and soybean crop severely damaged by the storm. Damage to Iowa’s homes, farms, businesses, livestock, and crops was an estimated $4 billion. The USDA said in October that the number of crop acres that Iowa farmers are unable to harvest increased to 850,000 acres (343,983 hectares).

While this weather even, followed by dry growing conditions, notably reduced grain production estimates; the U.S. still produced the third largest corn crop on record of 368 mmts and the fourth largest soybean crop of 113.5 mmts.

9. U.S. Dollar Index Drops to 2½ - Year Lows



In the last weeks of December, the U.S. Dollar Index has dropped to a two and a half low, trading below the 90.00 mark.

This US Dollar’s devaluation comes in the wake of the passing of record government spending, spurred by economic support for the Covid-19 pandemic, but chocked full of pork-barrel project and “special projects”.

In the past year the U.S. government has increased the money supply of the Greenback by a monumental 30%, raising concerns of rampant in coming months. We are already seeing inflationary impacts in the stock market and selected real estate markets. This is, and will continue to be a significant driver in higher commodity prices into the future.

In July the price prospects for agricultural commodities seemed a bit bleak amid prospects for growing world supplies and only modest demand. However, things have changed dramatically since mid-summer with lower-than-expected U.S. corn and soybean yields helped stem the bearish tide.

10. Oilseed Complex Highs

In the waning days of 2020, we continue to see new highs set across the oilseed complex. New contract highs were established in beans, meal and oil on the last day trading for the calendar year of 2020.

The lead contract of CME March 2021 Soybeans reached $13.20¾/bu. Before finishing up the year at $13.10/bu, recording "beans in the teen's" for the last few trading sessions of 2020 and achieving fresh 6-1/2 year highs. New life-of-contract highs were set in nearly all contract months.

The markets reached these new levels even as announcements were being made in Argentina that the three-week strike and labour dispute that has blocked soybean shipments had been resolve.

New highs were also set in meal and oil as CME March 2021 Soybean Meal reached $432.50, before settling at $429.10 a short ton. CME March 2021 Bean Oil reached a high of $42.65/cwt, and settled at $42.44/cwt.

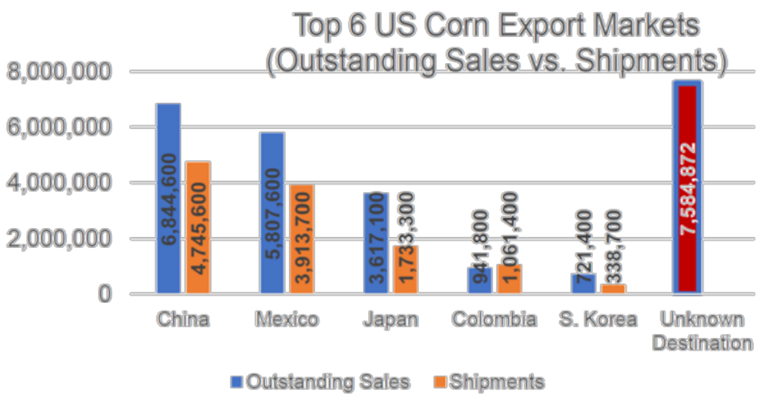
Good support continues to come from Palm Oil as CME January 2021 Palm Oil Futures reached a new high of 877.25/mt.

Fundamental continue to support the complex as U.S. ending stocks of soybeans are forecast to reach a seven year low of 4.7 mmts. Healthy crushing margin have supported a record "crush" of 59.7 mmts by U.S. processors. U.S. soybean exports are forecast by the USDA to reach a record 59.9 mmts. It is expected the bullish outlook will carry into the 2021 New Year.

11. Record Year for Corn

2020 has been a record year for corn all around. This year has seen record world production of 1,144 mmts, along with record consumption of 1,152 mmts, driven by record feed demand of 728 mmts supported by an expanding livestock sector. World corn exports are forecast to reach a record 186 mmts.

Mid-year China made its largest purchase of US corn in more than 20 years and its second biggest ever. On a July 10th USDA Report the US sold 1.365 mmts of corn to China. With this purchase China came closer to meeting its World Trade Organization target for corn imports of 7.2 mmts of corn and fulfilling it Phase One Trade Agreement commitments to the United States.



By the end of 2020 China is now the largest U. S. corn buyer with 6.846 mmts having been shipped, and 4.746 mmts of recorded purchases. It is further estimated that between half to two-thirds of the recorded forward sales currently totaling 7.585 mmts are also most likely destine to

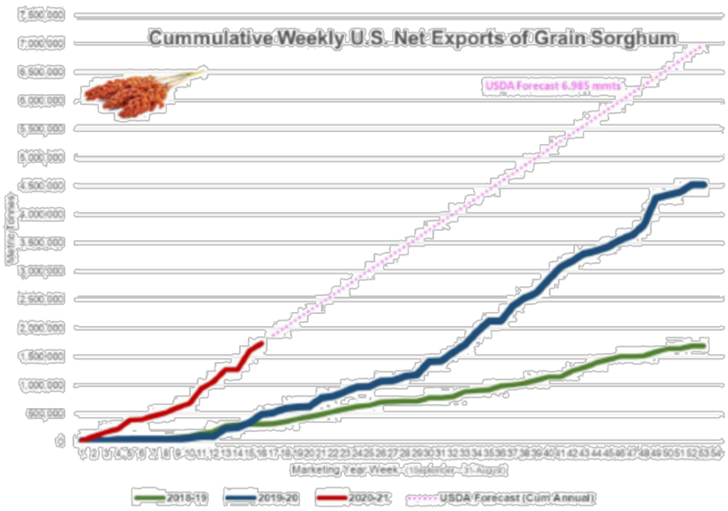
China as well. IGP estimates that a record 25 mmts of corn will be bought by China this marketing year.

U.S. corn exports are forecast to reach a record 67.3 mmts. Dropping U.S. ending stocks, forecasted to reach a seven year low of 43.2 mmts, have seen the price for corn rally to new highs in the last days of 2020.

These changes in the underlying fundaments have been met with a rally in prices. The nearby CME March 2021 Corn Futures reached new 6-1/2 year highs in the last minutes of trade on New Year's Eve settling at $4.85¾/bu, with most of the deferred contracts making new highs as well. It is expected the bullish outlook will carry into the 2021 New Year.

12. Strong Grain Sorghum Exports

Grain sorghum exports are forecast to reach the highest level in five years, driven by exceptional demand from China. The December USDA WASDE Report estimates sorghum trade were increased again to a total 8.829 mmts for the 2020/21 marketing year.



China is expected to import the greatest majority of this volume 7.0 mmts, a substantial increase from 2019/20 sorghum imports of 3.7 mmts. The U.S. will supply the greatest portion of this demand. Strong export demand has price sorghum out of the ethanol grind, as well as out of most feed rations as the greatest volume of the commodity is making its way through export channels.

Prices for grain sorghum in 2020 rallied to more than a $2.00/bu premium over corn, while the 2021 new crop price is already showing $1.00/bu premium in some locations.

13. Ethanol's 2020 Challenges

The ethanol industry has faced a number of challenges through 2020, including the shutdown of production as a result of Covid-19 and ongoing battles with the EPA on the small-refinery exemption program.

2020 started off with a major court victory for the ethanol industry as a federal appeals court ruled the EPA had abused its discretion in granting small-refinery exemptions to the Renewable Fuel Standard to three companies. That ruling put the agency in the hotseat, forcing them to decide whether it would apply the ruling nationally and effectively slow an exemption program that approved 85 waivers from 2016 to 2018. In June, the EPA posted 52 new small-refinery exemptions requests from previous years on the agency's Renewable Fuel Standard (RFS) dashboard. In total, the agency received 68 small-refinery exemption requests. The number of so-called gap-year exemption requests drew outrage from biofuel groups calling on the agency to renew its transparency pledge on the program. For the first time in four years, the EPA missed the June deadline for finalizing 2021 volumes for the RFS. The 30th of November deadline came and went even without a proposal put forward. The completion of the 2021 numbers has been pushed back into 2021.

While the completed trade deal with China provided a moment of optimism for exports of both ethanol and DDG's, the Covid-19 economic shutdown and the related drop in travel, resulting in a sharp drop in the demand for blended fuels.

At the same time, Russia and Saudi Arabia unleashed an oil war that essentially sent demand for transportation fuels in a freefall. Historically low oil prices and caved demand led to less demand for ethanol to blend with gasoline.

As a result, many ethanol plants cut back and idled production beginning in March and April. Ethanol prices and plant margins dipped to historically low levels. At the peak of the COVID-19 crisis in late April, more than 52% of ethanol capacity was idled and only 46 plants were running at full capacity, with 78 completely idled. Since then, many plants have stepped up production, but continued to fall short of pre-pandemic levels.

14. WTI Crude Oil Values Trade At "Negative" Values

Nearby West Texas Intermediate (WTI) Crude Oil prices gave us another lesson in markets and delivery economics, dropping into "negative" pricing territory sending shockwaves through the markets.

The extent of the economic damage by the Covid-19 pandemic was inflicting on travel and the transportation sector that there was almost nowhere left to store building oil stocks. The situation was highlighted to the oil industry on April 20th, when the benchmark nearby May 2020 WTI Futures Contract plunged to a historic low of minus $40.32 per barrel. On the day before the May contract expired, the "long" position holders were stuck with barrels of crude oil having to pay buyers to take it away.

This was a hard lesson for many in the market, highlighting the need to understand the underlying delivery process for commodity futures contracts. This is the process that connects the derivative with the underlying physical cash commodity. In the case of WTI Futures delivery, the situation demonstrated the importance of sufficient storage capacity at the delivery point and some weakness in the corresponding delivery process.

Since then, WTI Crude Oil prices have recovered to over $49.00 per barrel in mid-December, trading to their highest level since the 16th of March.

15. Wheat Values Lagging, But Also Making New Highs

While wheat prices have lagged behind, being supported by soybean and corn values. Wheat also made new highs on the last trading day of the year with the lead CBOT March 2021 Wheat contract reaching $6.44½/bu, before settling for the year at $6.41¾/bu. These have been the highest price levels we have seen for nearby CBOT Wheat since the 22nd of December 2014; in May of 2014 we saw a high of $7.35.

KC HRW Futures traded above the $6.00 mark and as high as $6.06½/bu and settled at $6.05¾/bu. MGE March 2021 Spring Wheat Futures made new highs touching the $6.00 mark, and closing at $5.99 ½/bu for the year.

It is expected that wheat will continue to lag behind in 2021, following corn and soybean prices, as underlying fundamentals show ample supplies and lack lustre demand.

16. Sustainability

We have increasingly seen the term “sustainability” used when it comes to discussing production agriculture. The market, driven by the consuming public, is becoming increasingly focused on the issue, as more people began to make the connection between climate and food, fiber and production agriculture practices.

Through 2020 we have seen continued progress on the issue across the supply chain, and its support promises to continue to gain ground in the coming years. Increasingly companies and their customers are requiring products produced in a sustainable manner that promotes resource stewardship and regenerative agriculture.

17. Illinois Waterway System Locks Get Much-Needed Repairs

The Illinois Waterway system, which provides a navigable connection between Lake Michigan and the Mississippi River, includes eight lock and dam sites. Many of these assets were long overdue for significant repairs. In order to facilitate repairs, the U.S. Army Corps of Engineers (USACE/Corps) Rock Island District developed a consolidated repair schedule that included a short closure to locks in 2019, followed by an extended closure in 2020. The five locks and dams on the Illinois Waterway had been closed since early July in order to perform critical maintenance.

The Peoria Lock was the first to reopened on the 28th of September, followed by LaGrange Lock on the 13th of October. With construction coming to an end at Dresden Island, Starved Rock and Marseilles locks, on the 29th of October the USACE made the long-awaited announcement that the Illinois Waterway lock and dam system is open for navigation.

The next extensive closure is scheduled for four Lock and Dams during the summer of 2023 for 90 to 120 days.

18. Navigable Water Protection Act Finalized

This past year, the Trump administration finalized the Navigable Waters Protection Act, replacing the 2015 waters of the United States, or WOTUS, rule. Agriculture interests challenged the WOTUS rule in court for years out of concern the rule expanded EPA's reach onto farms. However, a number of lawsuits challenging the changes have been filed and are pending in federal courts, including challenges from environmental groups and states claiming the new rule weakened water protections in the Clean Water Act.

The new rule scraps terms such as "significant nexus" and spells out four specific categories of waterways that will be regulated by the federal government, leaving oversight of other water bodies to states and tribes.

19. Zen-Noh Grain – CGB Acquired Bunge U.S. Grain Elevators

In April, Zen-Noh Grain Corp. (ZCG), a subsidiary of the National Federation of Agricultural Cooperative Associations of Japan (Zen-Noh), has reached an agreement with Bunge North America, Inc., a subsidiary of St. Louis-based Bunge Ltd, to acquire 35 US interior elevators.

ZGC said its affiliate, CGB Enterprises, Inc., Covington, Louisiana, US, will operate the acquired facilities through its wholly owned subsidiary, Consolidated Grain and Barge Co. CGB currently operates more than 100 grain origination facilities in the United States.

In addition to the export terminals in Destrehan and the EGT joint venture, Bunge will retain ownership in Bunge-SCF Grain, Bunge's joint venture with SCF, and the Bunge elevators in Indiana that directly support Bunge's soybean processing plant in Morristown.

The company also ended its 13-year ownership interest in an Iowa ethanol plant in January and sold its Brazilian margarine business in December 2019.

Prior to the pending sale to Zen-Noh, Bunge ranked 7th in grain storage capacity in North America with 170.1 mbus, according to Sosland Publishing's 2020 Grain & Milling Annual.

20. Minneapolis Grain Exchange Gets New Owner

On the 14th of August the 139-year-old member-owned Minneapolis Grain Exchange (MGEX) announced that Miami International Holdings (MIH), the parent holding company of the MIAX Exchange Group, would acquire MGEX for a combination of cash and MIH common stock.

As a result of the acquisition, MGEX has become a wholly owned subsidiary of MIH. This sale followed an earlier demutualization of MGEX by its members.

MIH said it would continue to maintain the trading and clearing operations of MGEX, including its hard red spring wheat contract, while adding new futures products.

Historically the MGEX has concentrated on trading in agricultural products, with the principal market being hard red spring wheat contracts.

Since the last "floor" trade made on Dec. 19, 2008, when the trading floor was closed as the MGEX shifted to an all-electronic futures trading platform, the exchange remained a standalone entity with more than 400 seats.

In its early days, farmers would bring their own wheat to the exchange to sell to waiting buyers. Farm trucks full of grain would be lined up outside around the Grain Exchange to be sampled, graded and sold.

Closing Comment:

On a closing note, I reflect that China has had a major impact across commodity markets through the past months of 2020, driving market rallies as well as retracements. The influent of both China and Southeast Asian demand is expected to continue into the future and coming new year. I also recall that the coming Asian New Year of 2021 is the "year of the Ox", or the "Bull", as I prefer to think of it. I am confident that this bull market will continue well into the coming new year and the situation will continue to be increasingly optimistic for production agriculture and agribusiness.

- END -