WEEKLY NEWS ARTICLE UPDATE

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Export Sales Highlights

This summary is based on reports from exporters for the period December 2-8, 2016.

Soybeans: Net sales of 2,008,400 MT for 2016/2017 were up 44 percent from the previous week and 33 percent from the prior 4-week average. Increases were reported for China (1,323,600 MT, including 438,000 MT switched from unknown destinations and decreases of 5,000 MT), unknown destinations (151,500 MT), Indonesia (112,200 MT, including 50,000 MT switched from unknown destinations and decreases of 6,700 MT), the Netherlands (76,000 MT, including 66,000 MT switched from unknown destinations), and Germany (70,100 MT). For 2017/2018, net sales of 396,500 MT were reported for China (264,000 MT), unknown destinations (132,000 MT), and Japan (500 MT). Exports of 1,890,000 MT were up 5 percent from the previous week, but down 24 percent from the prior 4-week average. The primary destinations were China (1,292,200 MT), Indonesia (88,800 MT), the Netherlands (76,000 MT), Japan (73,300 MT), and Saudi Arabia (72,600 MT).

Optional Origin Sales: For 2016/2017, the current optional origin outstanding balance of 180,000 MT is for China.

Exports for Own Account: New exports for own account totaling 85,600 MT were reported to Canada. The current exports for own account outstanding balance of 105,900 MT is for Canada.

Export Adjustments: Accumulated exports of soybeans to the Netherlands were adjusted down 70,080 MT for week ending December 1st. The correct destination for this shipment is Germany and is included in this week's report.

Soybean Cake and Meal: Net sales of 200,000 MT for 2016/2017 were down 10 percent from the previous week and 23 percent from the prior 4-week average. Increases were reported for Mexico (47,600 MT, including decreases of 100 MT), Colombia (30,000 MT), Canada (29,200 MT), **Poland (27,500 MT**), and Pakistan (18,500 MT). Reductions were for Nicaragua (1,700 MT), Jamaica (500 MT), and the Dominican Republic (200 MT). For 2017/2018, net sales of 200 MT were reported for Canada. Exports of 193,100 MT were down 4 percent from the previous week, but up 4 percent from the prior 4-week average. The primary destinations were the Philippines (49,800 MT), Mexico (41,900 MT), Venezuela (30,000 MT), Canada (17,300 MT), and the Dominican Republic (15,100 MT).

Soybean Oil: Net sales of 40,300 MT for 2016/2017 were up noticeably from the previous week and 49 percent from the prior 4-week average. Increases were reported for South Korea (20,000 MT), Mexico (13,000 MT), unknown destinations (4,500 MT), Colombia (2,000 MT), and Canada (600 MT). For 2017/2018, net sales of 500 MT were reported for Mexico. Exports of 21,300 MT were down 26 percent from the previous week and 19 percent from the prior 4-week average. The primary destinations were Colombia (13,500 MT), Mexico (6,400 MT), Trinidad (800 MT), and Canada (400 MT).

Relief for Land Owners - Price Fall is Reminiscent of Great Depression

Good news for US farmland owners – the retreat in values looks more like that in the Great Depression than it does the 1980s' decline.

At least, to go by values in the Midwestern agricultural powerhouse of Iowa, the top US corn and soybean-producing state.

Iowa State University, in an annual farmland price update for the state, said that prices had fallen by 5.9% this year – the first time since the 1980s that values have fallen for a third successive year.

The drop in prices - to an average of $7,183 per acre, down 17.6% from their 2013 peak – has left many people "concerned about a potential farmland bubble burst", the university said, citing the dent to values from recent US political and economic developments, besides weak crop prices.

"There are legitimate reasons to be cautious, especially with the rising uncertainty in agricultural exports and likely rise in interest rates."

Indeed, many observers are expecting the Federal Reserve on Wednesday to raise the key US interest rate by 0.25 points, in the face of falling unemployment and firm US economic growth.

'It is not unwarranted to be worried'

Furthermore, "there is a concern for some producers over possible financial difficulties due to continually declining income and accumulation of debt from banks and other sources".

Wendong Zhang, the Iowa State University associate economics professor in charge of the survey, said: "For a pessimist, there are reasons to worry, especially for landowners and/or producers who are over-leveraged."

"It is not unwarranted to be worried... Farmers and land owners who bet on the high commodity prices lasting and aggressively expanded or borrowed heavily will face significant problems."

Indeed, it looks like the correction in prices is not over yet, with Dr Zhang cautioning that "looking ahead, land values might continue to adjust downwards in the next year or two", a performance which would be "consistent with the stagnant corn and soybean futures prices and potential rise in interest rates".

Further price drops in 2017 and 2018 would see the current price retreat match, in terms of length, the decline in values in the 1980s, when Iowa prices dropping continuously from 1982-86.

'No speculative bubble'

However, in value terms, there was cause to believe that the current retreat will not match that of the 1982-86 period, during which Iowa prices slumped by 64%, in a decline fuelled by a sharp rise in interest rates at a time of elevated farm debts.

"Iowa farmland values do not appear to be in a speculative bubble that caused the dramatic declines in the 1980s farmland values or the urban real estate market in the mid-2000s," the university said.

"Farmers accumulated much more income, especially cash, during the most recent decade" than they did during the previous two "golden eras" for land prices, in the 1910s and 1970s.

"Farmers used to be able to borrow up to 85% of inflated, market-based land value in the 1970s, while now they can only get less than half of cash-flow based land values.

"It appears most farmers will be able to weather the storm as the market prices find a new equilibrium."

Great Depression vs 1980s

The likely outcome is that downward pressure on farmland values "will continue and play out next year and beyond, but it will more than likely be a rational and modest correction as opposed to a sudden change".

The current scenario appears more like the extended and relatively gentle drop in land values which started in 1921 and extended into 1933, in the midst of the Great Depression, than the "dramatic collapse" of the 1980s.

"We might see this farm downturn resemble the trajectory of the 1920s farm crisis in the sense that there might be a long, drawn-out decline in the farmland market."

Rising US Interest Rates Particularly Bad News for Farmland

Tightening monetary policy in the US is bad news for land prices, but less negative for staple foods.

On Wednesday the US Federal Reserve raised interest rates for only the second time since the financial crisis of 2008, citing economic growth and rising employment.

Although the move was widely expected, and at 0.75% the Federal Funds Rate is still historically low, Janet Yellen also signalled that the Fed would continue to tighten monetary policy in 2017 at a faster rate than expected, spurring the dollar higher.

Food demand more resilient

Rising interest rates are bad news for farm land values. The current value of land is driven by the expected return per unit of land in each future time period divided by the discount, or interest, rate. As a result, land prices vary inversely with interest rates.

But prices for agricultural commodities are less vulnerable.

Although higher interest rates discourage borrowing, and hit consumer spending power, demand for food is usually very inflexible.

Therefore it is likely that demand for agricultural output will hold up better than the demand for less essential goods.

And production may be squeezed by the higher price of credit.

The cost of short term funding, for such as fertilizer, seed, or livestock, and long term funding for inputs such as land and machinery will increase.

Threatened exports

But there will be pressure on agricultural commodity exports.

Raising interest rates will push up the value of the dollar against other currencies, with the greenback already at a 14-year high.

This will make dollar denominated produce – such as US agricultural output – more expensive in terms of other currencies.

As customers in the Euro-zone or UK have to hand over more of their euro or sterling to purchase each dollar denominated unit of farm output, so their demand for this output will decrease.

COLUMN-U.S. Soybeans May be Headed for 90 Million Acres in 2017

By Karen Braun

CHICAGO, Dec 16 (Reuters) - It is almost certain that U.S. farmers will plant more soybeans in 2017 than ever before, but profitability indicators in the futures market give good reason to believe that this acreage could push much higher than what we have been prepared for.

In its annual long-term projections published late last month, the U.S. Department of Agriculture placed next spring's soybean planted area at 85.5 million acres – 1.8 million more acres than 2016.

This year-on-year bump of 2 percent is the largest such increase predicted by the agency at this early stage in nine years. Compared with the final yearly changes in soybean acres, the long-term projections have tended to be more conservative.

But from a profitability standpoint, this notable boost in acres may still be too modest.

The new-crop soybean-to-corn futures price ratio has spent the last two months at levels not seen at this time of year in at least 20 years. The ratio, which in this case compares the November 2017 soybean contract with December 2017 corn, is a key indicator of the producer's profit potential (http://reut.rs/2hzyxWY).

Farmers tend to favor planting soybeans when the soybean-to-corn ratio is above 2.5. As of Thursday, it was 2.6, slightly down from its peak of 2.7 on Dec. 1. Typically, the ratio will not reach these values until at least May of the expiration year.

Historically, there have been dramatic leaps in soybean acreage in the spring when the soybean-to-corn ratio was elevated in the previous December – to a much larger degree than USDA has suggested for next year.

And a look at some of these past scenarios suggests that breaking the 90 million-acre mark in 2017 should be on the table.

CLUES FROM THE PAST

Aside from 2017, there are only three other crop years during which the December disparity between soybean and corn futures was similarly large: 1997, 2006, and 2014.

The year-on-year soybean acreage increase in these three seasons – 9 percent in 1997, 5 percent in 2006, and 8 percent in 2014 – makes USDA's 2 percent rise for this year seem underdone, especially considering how much higher the 2017 soybean-to-corn ratio has been than the others.

It is also interesting to note that in these years, the ratio did not necessarily sustain at or above 2.5 from December through the planting season (http://reut.rs/2h6582S).

USDA did not necessarily catch on early to the drastically higher acreage in these previous years, as the agency's long-term planted area projections indicated a yearly gain of only 1.5 percent in 2014 and 2 percent in 2006.

And initially underestimating soybean acres has not been confined to the years when soybeans were the clear-cut winner over corn from a profit standpoint, as USDA's long-term projections have fallen short of final planted area in 10 of the last 15 years.

Corn should be freeing up some extra acres for soybeans next year, as futures prices for the yellow grain linger near the lowest levels of the Renewable Fuel Standard era. USDA predicts next year's planted area to fall 4.5 million acres to 90 million.

Unlike the same comparison for soybeans, this 5 percent year-on-year decline in corn acres is exactly in line with the actual area decrease in 2014 and 2006, despite the initial projections being too conservative. Planted area in 1997 increased by less than half a percent.

It could prove true that USDA has simply set the floor for 2017 at 85.5 million acres of soybeans. But where exactly is the ceiling?

Taking the percentage gains from 1997, 2006, and 2014 and applying them to last year's 83.7 million acres would result in a planted acreage range of 87.9 million to 91.2 million acres.

Some analysts are already narrowing in on this range. On Thursday, private analytics firm Informa Economics increased its forecast of 2017 U.S. soybean plantings to 88.86 million acres.

Just for fun, if the United States plants 91.2 million acres of soybeans in 2017 and yields can once again reach this year's estimated 52.5 bushels per acre, the haul would amount to 4.74 billion bushels, topping this year's record 4.36 billion.

And although that reflects the most optimistic view one could have at this time, today's "just for fun" scenario could turn into reality in a few short months.

U.S. Challenges China's Grain Import Quotas at WTO
By Karl Plume
Dec 15 (Reuters) - The United States on Thursday launched a challenge to China's use of tariff-rate quotas (TRQs) for rice, wheat and corn at the World Trade Organization, charging that Beijing's administration of the program breached its WTO commitments and hurt U.S. farm exports.

The USTR said global prices for the three commodities were lower than China's domestic prices, yet the country did not maximize its use of TRQs, which offer lower duties on a certain volume of imported grains every year. The USTR said that limited market access for shipments from the United States, the world's largest grain exporter, and other countries.

The TRQs for the three commodities were worth more than $7 billion in 2015, according to the U.S. Department of Agriculture. China would have imported up to $3.5 billion more of the crops last year if the quotas had been fully used, the Office of the U.S. Trade Representative said on Thursday.

"The United States will aggressively pursue this challenge on behalf of American rice, wheat, and corn farmers," U.S. Trade Representative Michael Froman said in a statement.

China's Ministry of Commerce said it regretted the move and would respond through official WTO channels. It was the second challenge to China's agricultural policies by the U.S. Trade Representative since September and the latest in a series of trade disputes between the world's largest economies.

China on Monday launched a complaint at the WTO against the United States and Europe after they failed to treat China as a market economy and ease their calculations of anti-dumping duties on Chinese goods.

The United States in September charged that China's domestic grain price supports exceeded agreed upon limits when Beijing joined the WTO in 2001. The USTR has since requested that the WTO launch a dispute settlement panel to investigate the matter.

Industry groups said Thursday's action would benefit all global grain exporters that have struggled recently with low prices and historically large supplies.

"This troublesome administration of China's wheat TRQ is restraining export opportunities for U.S. wheat farmers and farmers from Canada, Australia and other wheat exporting countries to the detriment of Chinese consumers," said Alan Tracy, president of the trade promoting group U.S. Wheat Associates.

China is second largest importer of U.S. agricultural products behind Canada, with $20.3 billion in purchases last year, according to USDA data.

Thursday's action was the 15th trade enforcement challenge against China by the Obama administration at the WTO since 2009.

China Orders Six Soy Crushers to Halt on Environmental Concerns
By Bloomberg News
(Bloomberg) -- China ordered soybean crushing mills in Dongguan city to temporarily halt operations as part of efforts to clampdown on air pollution, according to an official at the local environmental bureau.

Residents in the city in the southern province of Guangdong complained about the smell from the plants and the mills must address concerns before a central government inspection visit later this month, said the official from Environmental Protection of Dongguan, who only gave his family name Li

The crushers affected include plants run by Cargill, Sinograin, COFCO, China Textile, Wilmar International and
Louis Dreyfus, according to the National Grain and Oils Information Center * The six crushers have total daily crushing capacity of 25,000 tons, according to CNGOIC

Big crushers were operating at 60-80% of capacity last month

Cargill crusher in Dongguan reached by Bloomberg declined to comment

A person who answered a phone call to the media office of Sinograin's Dongguan crusher said the plant was still
operating without commenting further

Wilmar couldn't be immediately reached for comment

The shutdown will tighten local soymeal supply: CNGOIC * Some crushers received notice on Monday and should shut down before Thursday, said Li Lifeng, an analyst with industry portal Cofeed

Two crushers in the city have already shut down for maintenance: Cofeed

The price of soymeal in Guangdong jumped by 200 yuan/ton on Tuesday and was quoted at 3,800 yuan/ton: Cofeed

Brazil's 2016/17 Soy Crop Seen at Record 106.1 MMT - Safras

16-Dec-2016

Brazilian independent analysts Safras & Mercado raised its forecast for Brazil's 2016/17 soybean crop to 106.1 million tonnes [3.898 billion bushels], 9.2 percent above the 2015/16 season and 2.5 percent more than its previous projection in October.

The consultancy said the two largest producing states in the country, Mato Grosso and Paraná, are seeing very good development of their crops, increasing output potential

Safras sees agricultural yields jumping to 3,176 kg per hectare (47.2 bushels/acre) in the new crop versus 2,943 kg/ha in the previous

Total planted area is seen growing just 1.2 percent from previous crop to 33.57 million hectares

Safras soy output view appears to be the highest among respected analysts so far

NE China Province to Ban GM Crops

HARBIN, Dec. 16 (Xinhua) -- Farmers in northeast China's Heilongjiang province, China's top grain producer, will be prohibited from growing Genetically Modified(GM) crops, according to a provincial regulation passed on Friday.

The regulation will become effective on May 1, 2017.

Growing of GM corn, rice and soybean will be banned, while illegal production and sales of GM crops and supply of their seeds will also be prohibited.

The new regulation also bans illegal production, processing, sale and imports of edible GM farm produce or edible farm products that contain GM ingredients. It requires all GM food be sold in a special zone, clearly indicated in stores.

The decision comes after 91.5 percent of responses in a survey in the province in October raised objections to GM crops.

"We support the research and development of transgenetic technology, but we should be cautious in applying the techniques in crop production," said Yao Dawei, director of the provincial legislature.