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Weekly Outlook: Soybean Exports since the Onset of Tariffs

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The evolving developments with tariffs between the U.S. and China continue to influence the outlook for soybean prices. The relationship between U.S. and competitor export prices along with the changing nature of trade flows merit monitoring during the 2018-19 marketing year.

The implementation of tariffs on Chinese goods and the subsequent retaliation led to an adjustment of trade flows in world soybean markets over the last few months. As the tariffs, went into effect, a price gap opened between Brazilian and U.S. export prices. The gap continuously widened when comparing an index of soybean prices at the port of Paranagua and New Orleans prices since early June. The gap reached its broadest level late last week at approximately $1.90 per bushel difference. New Orleans prices came in near $8.50 per bushel. It is difficult to predict future changes in the spread between the two prices, but it directly relates to the tariff level in China on U.S. soybeans. The development of this price gap indicates the impact of tariffs on soybean markets and highlights switches in Chinese soybean buying this year. Brazilian soybean exports attained record levels in May with exports coming in at 453.7 million bushels. Soybean exports from Brazil continued to show strength through August with the Brazilian export pace exceeding the previous five-year average by 47.5 percent according to Brazilian export data. Meanwhile, the large drop in U.S. soybean prices led to a jump in soybean exports over the last quarter of this marketing year from the U.S.

The USDA soybean export estimate for the 2017-18 marketing year currently sits at 2.11 billion bushels, an increase of 45 million bushels since the June estimate. An expectation of additional bushels added to soybean exports for the 2017-18 marketing year looks probable based on recent export reports. Census Bureau export estimates through July placed soybean exports at 2.051 billion bushels. Census Bureau export totals came in 56 million bushels larger than cumulative marketing year export inspections over the same period. As of August 30, cumulative export inspections for the current marketing year totaled 2.068 billion bushels. If the same difference in export pace continued through the remainder of the marketing year, soybean exports would total 2.124 billion bushels for the 2017-18 marketing year, 14 million bushels above the current estimate. During the last four weeks, export inspections of soybeans averaged 30.6

million bushels per week. Low soybean prices encouraged exports to destinations other than China in the previous two months. A detailed look at July export totals by country, the first full month under the new tariffs, provide a glimpse of how trade flows appear to be adjusting. While Chinese imports fell by 10.7 million bushels from last July, numerous countries increased soybean purchases at the lower prices. Egypt, the European Union, and Taiwan saw the highest increases over last year at 10.9, 5.7, and 8.7 million bushels higher respectively. U.S. soybean exports to China typically reach the lowest levels of the marketing year in the summer and build strength as U.S. harvest progresses. A large pullback in Chinese demand for U.S. soybeans appears set to continue indefinitely. The growth in soybean exports around the world relies on the lower prices in place since June.

A large amount of uncertainty surrounds soybean exports in the 2018-19 marketing. Currently, the USDA forecasts 2.06 billion bushels of soybean exports. Export sales for the next marketing year sit at 510.4 million bushels as of August 30, down 54.8 million bushels from last year. Sales to China came in at 46.5 million bushels, down 80 percent from the same time last year. Stronger sales figures to Mexico, Canada, and Pakistan mitigated weaker sales totals. The ability for the rest of the world to make up for typical Chinese exports in the first half of the 2018-19 marketing year, when U.S. exports to China are at the highest levels, seems unlikely. The USDA reduced the Chinese soybean import forecast to 3.491 billion bushels in the last WASDE report. Recently, the spread of African swine fever saw China indicate an even further reduction in soybean imports over the next year to 3.2 billion bushels, down 9.5 percent from last year. While decreased Chinese import projections may be optimistic, the prospect of substantial increases in U.S. and South American soybean production next marketing year under a lower export demand scenario would keep U.S. prices under pressure.

The growth of the U.S. trade deficit to China in August and the high likelihood of another round of tariffs between the two nations makes a resolution of trade issues a low probability event for the near future. U.S. exports of soybeans jumped over the last quarter of the marketing year as lower prices spurred demand around the world. A large U.S. crop with lower export demand over the next marketing year set up a bearish picture for soybean prices.

YouTube Video: Discussion and graphs associated with this article available at youtu.be/DMAX25KqyP8