



Weekly Outlook: Sell the Rumor? Trade Negotiations and Soybean Prices

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November 19, 2018

farmdoc daily (8): 213

Recommended citation format: Hubbs, T. "Sell the Rumor? Trade Negotiations and Soybean Prices." *farmdoc daily* (8): 213, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, November 19, 2018.

Permalink: <https://farmdocdaily.illinois.edu/2018/11/sell-the-rumor-trade-negotiations-and-soybean-prices.html>

A recent rally in soybean prices rested on the potential for a trade deal between the U.S. and China. A few rallies occurred since the escalation of trade issues between the U.S. and China in June. The question becomes should one sell on rallies associated with trade negotiations. An analysis of current projections of supply and foreign consumption along with a discussion of recent developments in soybean exports may help in this decision.

World soybean production is set for a strong marketing year. U.S. soybean production is projected at 4.6 billion bushels for the 2018 crop. This production level is 189 million bushels larger than the 2017 crop and is set to push ending stocks for the current marketing year above 950 million bushels due to the reduced potential for exports. Brazilian production is forecast to be 5.7 percent higher than last year as higher export demand drove an increase in acreage the planting season. Projected harvested acreage in Brazil sits at 92.7 million acres, up 6.8 percent from last year. Brazil's soybean yield in 2017-18 came in at a record 50.7 bushels per acre, up from 50.3 bushels per acre last year. The yield projection for the current crop is 47.7 bushels per acre. The excellent start to the growing season in the region increases the potential for a much larger yield. Argentine soybean production is forecast at 2.04 billion bushels, up from last year's drought-impacted total of 1.4 billion bushels. World production sits at 13.5 billion bushels for this marketing year, up from 12.4 billion bushels last year. While domestic consumption is projected up 558 million bushels to 12.9 billion bushels, world ending stocks look to rise by 455 million bushels to 4.1 billion. When considering the potential for a larger Brazilian crop, the world ending stocks number may rise even further. For U.S. soybean prices, the market share of exports remains the key despite the promise of strong crush levels this marketing year.

China, over the last decade, took 60 percent of the world's soybean exports. USDA projections for Chinese soybean imports for 2018-19 are 3.307 billion bushels. The current level is a 152 million bushel decrease from last year. USDA's forecast sits around 180 million bushels above Chinese estimates. The ongoing issues with swine fever and shifts in the compositions of hog rations may place the final soybean import total closer to Chinese estimates. Brazil benefited after the implementation of a 25 percent tariff by China on U.S. soybean imports. A large price differential between Brazil and U.S. export prices

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developed that narrowed over the last few weeks on trade resolution speculation. Brazilian soybean exports since June expanded significantly over last year with trade going to China. During June through October, Brazilian soybean exports are up 34.1 percent over last year at 1.422 billion bushels. The loss of the Chinese market makes U.S. exports dependent on other regions. Projections for other major importers (the European Union, Japan, Mexico, and Southeast Asia) are expected to increase 42 million bushels to 1.506 billion bushels for the marketing year. Barring the resolution of the trade dispute, U.S. soybean exports look to continue to lag significantly.

The projection for U.S. soybean exports during the 2018-19 marketing year is 1.9 billion bushels. This forecast is 229 million bushels lower than last marketing year's total exports. Census Bureau export estimates are only available for September. September exports came in at 119 million bushels, down 45 million bushels from last September. Census Bureau exports exceeded weekly export inspections by 2 million bushels during September. Soybean exports through November 15 equaled 407 million bushels if the relationship between export inspections and Census Bureau data stayed consistent. Soybean export inspections currently trail last year's pace by approximately 43 percent. As of November 8, 425 million bushels of soybean had been sold for export but not shipped. The current unshipped export sales number trails the 574 million bushels sold at the same time last year.

The composition of exports is of particular interest since soybean exports to China decreased substantially. The development of U.S. soybean exports to markets not generally in the export portfolio have been significant but remain unlikely to make up the difference in lost exports to China. A notable expansion of soybean exports to the European Union (25.9 million bushels) and Mexico (13.4 million bushels) occurred in September. While U.S. exports traditionally go to these regions, the expansion is substantial at 21.1 million bushels above last year. In conjunction with growth in traditional markets, Egypt, Argentina, and Iran emerged as strong export destinations with 25.6 million bushels in total. These nations imported almost nothing last year. These trends continued since September with export sales and inspections showing continued growth. While this is promising, Chinese imports of soybeans continue to disappoint. September exports to China came in at 2.5 million bushels, down 103 million bushels from last year. Through November 8, outstanding sales and accumulated exports to China sit 644 million bushels below last year's pace.

While Chinese and U.S. negotiators resuming talks is a positive development, the probability of a deal still seems somewhat remote based on the differences between the two nations. The forthcoming meeting at the G-20 summit in Argentina between U.S. and China may only settle on an agreement for future talks and possibly delay an increase of U.S. tariffs on Chinese goods set to go into place on January 1. If negotiations sputter and the tariff increase is enacted, a resolution could be a long way off. Weak U.S. exports and growing world stocks may make soybean price rallies associated with trade rumors decent windows for pricing.

YouTube Video: Discussion and graphs associated with this article <https://youtu.be/ce-Yqa3cpaA>