



## Weekly Outlook: Two Trade Deals and a Price Drop

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The signing of the Phase 1 trade deal with China and approval in the Senate of the USMCA last week saw two positive developments on the trade front. Despite some resolution on these trade issues, markets reacted negatively. The USMCA, while providing stability with two major trading partners, held limited short-term upside potential for corn and soybean exports. Significant skepticism on the ability of China to hit phase one trade targets among many market participants provided no support for prices. The phase one trade deal holds the most potential for more significant exports over the next year. The enforcement, timing, and magnitude of Chinese purchases remain unknown. To reach the \$36.5 billion target for 2020 outlined in the trade deal, substantial Chinese buying must occur this year in U.S. corn and soybean markets.

The potential for corn exports reaching or eclipsing current marketing year projections depends on follow-through in Chinese buying and the U.S. recouping market share from Brazil. As of January 9, total commitments for corn exports lag last year’s pace by 511 million bushels. USDA’s current forecast for marketing year exports sits at 1.775 billion bushels, 354 million bushels below last year’s export total. Despite the much lower projection, the recent pace of corn exports still sits below the USDA’s forecast. Using the relationship between weekly export inspection data and Census Bureau data, corn exports for the remainder of the marketing year need to average near 41.4 million bushels per week. Last year, corn export inspections from January to August averaged near 33 million bushels per week. Over the previous five weeks, corn export inspections averaged 19.7 million bushels per week, up from the 18.3 million bushels per week during the first quarter of the marketing year.

The recent weakness in U.S. corn export pace began in June last year and continues thus far in the marketing year. Brazilian corn exports began in earnest around this period due to a large safrinha crop. CONAB estimates placed the second corn crop near 2.7 billion bushels in 2019. The large crop helped to drive Brazilian marketing year exports to 1.5 billion bushels for the 2018-19 marketing year, up 656 million bushels from the previous marketing year. At present, the USDA predicts Brazilian corn exports at 1.3 billion bushels. While the planting of the safrinha crop is just beginning, the Brazilian forecast of this year’s crop sits at 2.61 billion bushels. High corn prices in Brazil combined with a smaller second crop may see stronger U.S. corn exports in the second half of the marketing year. Chinese purchases look to help if they materialize. U.S. corn buying from China remains limited by the 283 million bushels tariff-rate quota that remains in place and enforced despite the phase one trade deal.

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U.S. soybean exports in the current marketing year sit on par with last year's pace through early January. Total commitments, as of January 9, stood at 1.12 billion bushels. This level of commitments sits slightly above last year's 1.11 billion bushel total. Accumulated exports came in well above last year's total at 854 million bushels shipped thus far, up from 656 million bushels last year. Outstanding sales weakened recently and sit at 266 million bushels, down from last year's 460 million bushels. Analysis of Census Bureau and export inspection data indicate soybean exports need to average near 27 million bushels per week to reach USDA's current projection of 1.775 billion bushels. Last year, export inspections averaged 30.6 million bushels per week from January through the end of August. While weaker sales hint at a slowing export pace, increased buying from China may help boost export totals this marketing year. The magnitude of the increase remains in question due to a large Brazilian crop.

Increased Chinese buying of soybeans, while supportive, leads to decreased buying in the rest of the world. This substitution is pronounced in the western hemisphere and the EU were total commitments thus far this marketing year sit lower by 140 and 78 million bushels, respectively. A sizable Brazilian crop may exacerbate this trend. The USDA forecasts the 2019-20 soybean crop in Brazil near 4.5 billion bushels, up from around 4.3 billion bushels last year. It seems unlikely that China will walk away from buying in Brazil over the short run, particularly since reports out of China indicate first-quarter buying is complete. Expansion of U.S. soybean buying from China in 2020 may be concentrated later in the year as we enter the next marketing year. If China reverted to a typical buying pattern from a year without a trade war, soybean exports near 420 million bushels from January through August look feasible, much like totals seen in the 2016-217 and 2017-18 marketing years. While the signing of the phase one trade deal holds promise, buying from China may take a while.

Cautious optimism about the phase one trade deal seems appropriate. The ability of corn exports to meet current USDA projections seems unlikely without an expansion in Chinese purchases. Soybean exports remain on pace to hit current projections with the potential for higher exports under accelerated Chinese purchasing. At this point, export levels above current projections requires follow-through on the negotiated trade agreement with China.

**YouTube video:** Discussion and graphs associated with this article available here:  
<https://youtu.be/yK6q2fxWQr4>