



Weekly Outlook: Tariff Revival and Soybean Exports

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Recent soybean price weakness reflects the new tariff threats against China that emerged as an option for retaliation against Chinese behavior regarding the coronavirus. A collapse of the phase one trade deal looks politically feasible this year. If the U.S. and China rekindle the trade war, lower export totals, growth in ending stocks, and limits on soybean price potential face producers.

A growing blowback against China for behavior associated with the pandemic does not bode well for the promising trade deal signed in January. Since the signing of the agreement, Chinese buying of soybeans disappointed many observers. The coronavirus outbreak and sourcing out of Brazil kept Chinese buying below expected levels. Soybean purchases by China picked up over the last two weeks for both the current and next marketing years. Sales of almost 32 million bushels of soybeans gave the market support and some indication of purchases to come. Soybeans promise to be a large portion of buying by China in meeting their obligations, but a significant escalation in trade tensions places those purchases in doubt. Increased Chinese buying appears necessary to hit the export forecast set forth by the USDA in the most recent WASDE report.

Despite the USDA lowering marketing year exports by 50 million bushels to 1.775 billion bushels, exports still lag the required pace. As of April 23, soybean exports total near 1.27 billion bushels. Soybean exports need to equal close to 500 million bushels from May through August to reach the current projection. With a little over 17 weeks remaining in the marketing year, 27 million bushels per week are necessary to meet the USDA projection. Over the last five marketing years, soybean exports averaged 360 million bushels during those months. The largest total occurred last marketing year at 528 million bushels, with almost 280 million of those exports credited to China.

As of April 23, 195 million bushels of soybean had been sold for export but not shipped. This number sits well below the 473 million bushels of outstanding sales at the same time last year. Almost 17 percent of the outstanding sales total is booked for China, down from 59 percent a year ago. Chinese import projections sit at 3.27 billion bushels, up around 237 million bushels from last marketing year. Reports of more instances of African swine fever in China indicate that the disease is far from under control, but soybean demand should continue to be strong. A repeat of last year's export performance over the remainder of the marketing year seems unlikely given the abundant Brazilian crop without substantial buying from China.

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Brazil's soybean crop looks set to come in near 4.55 billion bushels. The record level of production occurred despite the size of the crop being revised down by 55 million bushels in the last WASDE report. A weak currency continues to benefit Brazilian exports. The Brazilian real depreciated by almost 37 percent since the turn of the year. Domestic political turmoil promises sustained currency weakness in Brazil over the near term. Brazil exported approximately 425 million bushels in March and is set to expand on that total in April with potential exports coming in near 530 million bushels. A setback in trade relations between the U.S. and China may add more bushels to an already impressive total of Brazilian exports.

China's behavior with regards to the coronavirus outbreak continues to generate a reaction against them both domestically and around the world. This backlash created calls for retribution that appear like a political winner in the U.S. Even if one agrees with this position, the impact on U.S. soybean exports merits consideration. After the onset of the trade war in 2018, soybean exports fell almost 400 million bushels between the 2017-18 and 2018-19 marketing years and pushed ending stocks above 900 million bushels. At present, this marketing year is on a similar export pace to the last. Unlike 2019, the potential for removing a substantial amount of soybean harvested acres seems remote this year. The March Prospective Planting report pegged soybean acres at 83.5 million. If this holds, harvested acres look to expand over 7.5 million acres from 2019 levels. Weakness in corn prices may see even more soybean acres this year. In February, the USDA pegged 2020-21 exports at 2.05 billion bushels based on increased buying out of China. If the past is any indication of future possibilities, a resumption of the trade war makes that forecast a remote proposition.

A resumption of hostilities on the trade front could see an expansion of ending stocks this marketing year due to lower export levels. While soybean crush levels remain robust, weak exports for the remainder of the current marketing year could push ending stocks closer to 500 million bushels. The implications for the 2020-21 marketing year are similar. This scenario limits the upside potential for soybean prices associated with the expanded export commitments promised under the phase one trade deal.